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U.S. Congress. House.

War Finance Corporation

Washington

1922

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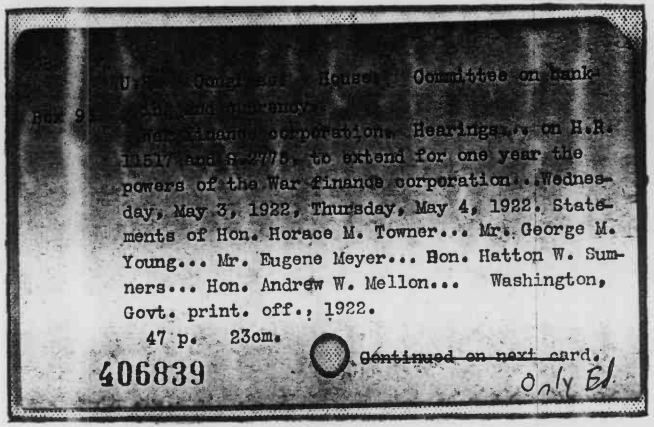
U. S. Congress. House. Committee on bank-
Box 9 ing and currency.
War finance corporation. Hearings... on H.R. 11517 and S. 2775, to extend for one year the powers of the War finance corporation...Wednesday, May 3, 1922, Thursday, May 4, 1922. Statements of Hon. Horace M. Towner... Mr. George M. Young... Mr. Eugene Meyer... Hon. Hatton W. Sumners... Hon. Andrew W. Mellon... Washington, Govt. print. off., 1922.
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WAR FINANCE CORPORATION

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HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY OF THE HOUSE OF REPRESENTATIVES

ON

Bills H. R. 11517 and S. 2775

TO EXTEND FOR ONE YEAR THE POWERS OF THE WAR FINANCE CORPORATION TO MAKE ADVANCES UNDER THE PROVISIONS OF THE ACT ENTITLED "AN ACT TO AMEND THE WAR FINANCE CORPORATION ACT, APPROVED APRIL 5, 1918, AS AMENDED, TO PROVIDE RELIEF FOR PRODUCERS OF AND DEALERS IN AGRICULTURAL PRODUCTS, AND FOR OTHER PURPOSES," APPROVED AUGUST 24, 1921

WEDNESDAY, MAY 3, 1922
THURSDAY, MAY 4, 1922

STATEMENTS OF

Hon. HORACE M. TOWNER, Member of Congress from Iowa
Mr. GEORGE M. YOUNG, Member of Congress from North Dakota
Mr. EUGENE MEYER, Jr., Managing Director, War Finance Corporation
Hon. HATTON W. SUMNERS, Member of Congress from Texas
Hon. ANDREW W. MELLON, Secretary of the Treasury

WASHINGTON
GOVERNMENT PRINTING OFFICE
1922

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COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES.

SIXTY-SEVENTH CONGRESS, SECOND SESSION.

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PORTER H. DALE, Vermont.
EDWARD J. KING, Illinois.
FRANK D. SCOTT, Michigan.
ADOLPHUS P. NELSON, Wisconsin.
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T. ALAN GOLDSBOROUGH, Maryland.

PHILIP G. THOMPSON, *Clerk.*

WAR FINANCE CORPORATION.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Wednesday, May 3, 1922.

The committee met at 11 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order. Judge Towner, you may proceed.

STATEMENT OF HON. HORACE M. TOWNER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA.

Mr. TOWNER. Mr. Chairman, I simply want to take up the time of the committee for just a moment regarding the extension of the War Finance Corporation. Of course, I need not say that we are all of us extremely anxious that this legislation be enacted.

I understand the committee are to consider the so-called Anderson bill, a bill providing intermediate credit.

The CHAIRMAN. I will say to you, Judge Towner, that some two or three weeks ago Mr. Anderson asked when we could have hearings on that bill, and I told him the committee would be glad to hear him at any time. Since that time I have heard nothing further from him regarding a date when he desired to be heard on this bill. The committee is awaiting the action of Mr. Anderson or any of the parties interested.

Mr. TOWNER. Well, I sincerely hope that the matters may be considered together, if it meets with the pleasure of the committee.

The CHAIRMAN. It was suggested at the last meeting of the committee that at an early date we would take up several of these pending measures for agricultural relief or rural credits, there being several bills pending before the committee, and it is the purpose of the committee to have a general discussion on them en bloc.

Mr. TOWNER. My only purpose in referring to that bill, which I hope will meet with favorable consideration, is this: That if it is finally reported, and if it should become a law, it will still be necessary that the work of the War Finance Corporation be extended for at least a year—I think a year.

Mr. Meyer has recommended at least six months' extension, and I presume you do not object really to a year's extension, Mr. Meyer?

Mr. MEYER. No; not at all, Judge Towner.

Mr. TOWNER. That is my understanding.

Now, Mr. Chairman and gentlemen of the committee, I looked over the other day the bills that were pending, all of them having the same object and there being quite a good many of them, and for the reason that I did not think they were in form I have introduced a bill, No. 11493, which I think meets the demand in proper form.

It is necessary to refer to all of the provisions of the original act in order to have the extension really made operative.

Since the introduction of 11492 Mr. Young has introduced a bill—11517.

This contains, as Mr. Young tells me, a recommendation of Mr. Meyer, which I have not the least objection to, although I am inclined to think it is unnecessary. However, I will let that matter be disposed of and will not attempt to argue it, except that I think that everything that could possibly be desired is contained in the extension provisions in my bill. For instance, this one refers to the change suggested by Mr. Meyer—refers to what is known as the fifth

paragraph of section 23 of said act, which I propose should be amended and the date changed, and the language of that act is as follows:

"That notwithstanding the limitation of section 1 the advances provided for by section 21 and section 22 of this act may be made until July 1, 1923."

So that the advances of the War Finance Corporation may become operative up until the last day of the extension of time; then it is provided immediately following that:

"The corporation may from time to time extend the time of payment of any such advance or advances through renewals, substitutions, or new obligations or otherwise, but the time for the payment of any advance made according to authority of sections 21 and 22 shall not be extended beyond three years"—

And this language I call special attention to—

"three years from the date upon which such advance was originally made."

So that if the advance should be originally made up until the 1st day of July, 1923, the time of settlement may be extended for three years.

Then the method by which these settlements and adjustments may be afterwards made in winding up the affairs of the War Finance Corporation are already provided for in the original bill.

Now, Mr. Chairman, I do not desire to take up any more of your time, and I thank you very much for your courtesy in allowing me to make this statement.

The CHAIRMAN. We will hear you now, Mr. Young.

STATEMENT OF HON. GEORGE M. YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA.

Mr. YOUNG. Mr. Chairman, on December 7, 1921, I introduced a bill to extend the time within which loans might be made to continue the operations of the War Finance Corporation. At that time I understand the chairman submitted this bill to Mr. Meyer and received a letter stating that it was too soon to say just what time the War Finance Corporation would require to properly finish its great work. Now, Mr. Meyer is here this morning and I will simply say this: That while the bill follows the general lines of my former bill, I am only the stepfather of this bill, 11517, the bill was prepared by Mr. Meyer, or under his direction, and all I did was to introduce it. It follows the form of simply calling attention in each paragraph to the particular change made; in the judge's bill each paragraph is completely restated. The form of this bill is one that can be followed by the average Member of Congress without thumbing the old law to see just where the change comes. It is stated here in brevity and clearness. Mr. Meyer is here to show why it should be passed and I do not want to take any more time of the committee.

The CHAIRMAN. Now, gentlemen of the committee, Mr. Eugene Meyer, jr., managing director of the War Finance Corporation, is here. You will recall that at a previous meeting you instructed the chairman to ask Mr. Meyer to appear before the committee in connection with legislation that was pending to revive or to continue the existence of the War Finance Corporation. I took that request up with Mr. Meyer's office and found that he was then making a trip through the West in connection with the work of the War Finance Corporation. He has returned and is here this morning. He has made an exhaustive study of this situation and has made a report to the President. I am sure he has an interesting story for us to-day.

I suggest to the committee that we let Mr. Meyer proceed in his own way until he has concluded, and if you will make memoranda of any special questions that come along and let Mr. Meyer answer them after he has finished, I think we will save a good deal of time.

Mr. LUCE. May I ask, Mr. Chairman, if that report has been printed yet?

Mr. YOUNG. I believe it has.

Mr. MEYER. I think you received a copy, Mr. Luce. A copy was mailed to each Member of Congress and I have brought a number of copies with me.

Mr. STEVENSON. Mr. Chairman, is it contemplated that the committee is going to continue to sit during the session of the House to-day?

The CHAIRMAN. Well, we want to get through if we can. I would mention also that there are some other gentlemen here who want to be heard on an amendment to the farm loan act, and I have agreed to recess until 2.30 to hear them then, or after we have finished the discussion of the proposed extension of the War Finance Corporation. It is an amendment to the Federal farm loan act that affects the western people in regard to irrigated lands. An amendment covering this matter was put into a Senate bill, and it seems to be

quite pressing at this time, and I think they would like to present the matter to this committee this afternoon; so when we do recess I am going to ask you to come back at 2.30, if you will, and hear these gentlemen.

If that is all, Mr. Young, we will hear Mr. Meyer.

STATEMENT OF MR. EUGENE MEYER, JR., MANAGING DIRECTOR WAR FINANCE CORPORATION.

Mr. MEYER. Mr. Chairman and gentlemen, since I had the pleasure of appearing before this committee last summer, and since the passage of the agricultural credits act, the corporation has proceeded to function under the authority granted in that act, as well as under the authority that existed previously. But by far the largest part of the business of the corporation has been conducted under the provisions of the act passed by Congress in August, 1921.

The loans approved by the corporation from January 4, 1921, to and including April 29 of this year—almost all of them subsequent to the passage of the agricultural credits act in August—aggregate $341,697,000.

Of this sum, $63,784,000 represents advances authorized to cooperative marketing associations. $268,947,000 to banking and financing institutions, and $8,966,000 to exporters.

Classified differently, the advances to assist in financing exports, approved by the corporation, total $50,250,000. You understand that the figure already given for advances to exporters—$8,966,000—refers only to advances authorized to exporting firms; export advances were made also through banks and through cooperative marketing organizations.

Advances to banking and financing institutions and cooperatitve marketing associations for agricultural and live-stock purposes were approved in an aggregate amount of $291,447,000.

Advances approved to cooperative marketing associations for agricultural and live-stock purposes total $58,522,000.

The CHAIRMAN. Mr. Meyer, will the statement that you put into the record show the aggregate amounts advanced to each State?

Mr. MEYER. I will submit the figures for the record.

The CHAIRMAN. I wish you would place that in the record.

OPERATIONS OF THE WAR FINANCE CORPORATION FROM JANUARY 4, 1921, TO AND INCLUDING APRIL 29, 1922.

I. *Advances to assist in financing exports under sections 21, 22, and 24 (par. 2), approved from January 4, 1921, to April 29, 1922, inclusive.*[1]

Grain	$5,209,810.69	Copper	$145,600.00
Tobacco	3,596,369.77	Sugar-mill machinery	470,966.36
Cotton	33,572,373.21	Agricultural machinery	500,000.00
Canned fruits	400,000.00	Railroad equipment	2,925,000.00
Meat products	1,000,000.00	Lumber	1,000,000.00
Condensed milk	1,000,000.00		
Textile products	250,000.00		
Sheet steel	180,000.00	Total	[2] 50,250,120.03

II. *Advances to banking and financing institutions and cooperative marketing associations for "agricultural and live-stock purposes" under section 24 (par. 1), approved from August 24, 1921, to April 29, 1922, inclusive.*[3]

(a) By commodities:		(a) By commodities—Continued.	
Cotton	$23,504,200.52	Rice	$2,500,000.00
Grain	21,290,189.31	Canned fruits	300,000.00
Live stock	78,769,959.18	Dried fruits	1,250,000.00
Sugar beets	9,996,000.00		

[1] Sec. 21 was added to the original War Finance Corporation act by the act of Mar. 3, 1919, and secs. 22 and 24 by the agricultural credits act of Aug. 24, 1921.

[2] Does not include advances aggregating $27,387,816.10 originally applied for and approved under sec. 21 for export purposes, and subsequently withdrawn by the applicants and resubmitted and approved as advances for agricultural purposes under sec. 24. Of the total amount, $37,573,650.26 represents advances approved subsequent to Aug. 24, 1921.

[3] Sec. 24 was added to the original War Finance Corporation act by the agricultural credits act of Aug. 24, 1921.

(*a*) By commodities—Continued.

Peanuts	$1,132,108.00
Tobacco	10,000,000.00
General agricultural products	142,704,468.95
Total	[4] 291,446,920.96

(*b*) By States:

(1) To banking and financing institutions—

Alabama	663,300.00
Arizona	3,317,500.00
Arkansas	453,500.00
California	2,387,671.28
Colorado	8,898,657.33
Florida	732,000.00
Georgia	6,189,434.88
Idaho	3,777,467.28
Illinois	6,530,873.14
Indiana	1,284,000.00
Iowa	23,698,687.49
Kansas	4,932,964.63
Kentucky	331,388.56
Louisiana	1,544,399.77
Michigan	85,000.00
Minnesota	12,155,049.26
Mississippi	1,437,838.19
Missouri	7,992,812.43
Montana	10,671,902.50
Nebraska	11,790,180.15
Nevada	248,000.00
New Mexico	7,907,677.69
New York	600,000.00
N. Carolina	7,784,000.00

(*b*) By States—Con.

(1) To banking and financing institutions—Con.

N. Dakota	$20,104,261.21
Ohio	1,393,806.00
Oklahoma	3,655,989.55
Oregon	5,162,190.64
S. Carolina	10,031,759.25
S. Dakota	15,083,284.50
Tennessee	3,362,227.11
Texas	21,268,095.64
Utah	11,299,221.00
Virginia	1,992,700.00
Washington	733,278.00
Wisconsin	5,379,500.00
Wyoming	8,044,084.38
Total	232,924,701.86

(2) To cooperative marketing associations—

Alabama	100,000.00
Arizona	1,200,000.00
Arkansas	1,250,000.00
California	2,809,000.00
Idaho	962,355.66
Kentucky	10,000,000.00
Minnesota	15,000,000.00
Oklahoma	6,000,000.00
Tennessee	5,060,060.29
Texas	9,787,566.50
Virginia	1,034,403.00
Washington	5,327,833.65
Total	[4] 58,522,219.10

III. *Summary of advances for export and agricultural purposes under sections 21, 22, and 24, approved from January 4, 1921, to April 29, 1922, inclusive.*

To cooperative marketing associations	$63,784,403.00
To banking and financing institutions	268,946,929.10
To exporters	8,965,708.89
Total	341,697,040.99

Mr. MEYER. You understand, I assume, and I need not explain, that the advances made in one State were of importance to the neighboring States and, in fact, to all States. For example, the advances made in Iowa to stabilize the banking and agricultural situation there naturally had their effect on Nebraska and Kansas and Missouri and on the whole corn-belt territory. They had their effect as well on the whole banking situation in the agricultural districts throughout the country, and, through them, on the larger centers. I mention that merely because a classification of the loans by States would not be a true index of the results of the work in any one State. The loans made in Iowa totaled more than those in any other State, but they were of value to the whole Mississippi Valley territory.

We have found the law as passed by the Congress substantially as recommended by this committee, practicable and workable, as you may judge, from the large amount of business that has been done. I make no suggestions for amendments. Effective relief has been given to the banks in the agricultural districts, to the live stock loan companies, and to the cooperative marketing

[4] This sum includes advances aggregating $27,287,816.10 originally applied for and approved for export purposes (under sec. 21) and subsequently withdrawn by the applicants and resubmitted and approved as advances for agricultural purposes under the agricultural credits act of Aug. 24, 1921 (sec. 24).

organizations, and through them we have functioned successfully on behalf of all the agricultural interests. Therefore in the bill extending the life of the corporation for a year it would seem unnecessary to do more than extend the period during which the present powers may be exercised.

The bill drawn by our counsel, Mr. Henderson, contemplates no amendment of the existing law except in so far as it extends the period during which the corporattion may function. The only suggestion we could make involves a more exact determination of what "July 1" means. The law now provides that "advances may be made at any time prior to July 1, 1922." This provision is somewhat ambiguous, but we have been compelled to construe it to mean that an application must be approved and the money actually paid out before July 1. The bill drafted by Mr. Henderson undertakes to clarify the situation by providing "that if any application for an advance or for the purchase by the War Finance Corporation of notes, drafts, bills of exchange, or other securities is received at the office of the corporation in the District of Columbia on or before May 31, 1923, such application may be acted upon and approved, and the advance may be made or the notes, drafts, bills of exchange, or other securities purchased at any time prior to June 30, 1923." This merely gives time to complete the transactions so that we can make the actual payments on or before July 1.

The CHAIRMAN. Then the committee is to understand that the bill, H. R. 11517, introduced by Mr. Young, is the bill which your corporation approves?

Mr. MEYER. That is correct, Mr. Chairman. We were requested to prepare a bill, and we did so in a way which seemed to accomplish the purpose of extending the life of the War Finance Corporation for one year under its existing powers.

I want to say, gentlemen, that the work has been exceedingly interesting and, at times, rather difficult. In the beginning it was especially difficult to get results in a large way as quickly as the necessities of the situation required. When we were called upon to inaugurate this nation-wide agricultural relief work we had a staff, aside from the directors, of only 25 or 30. We had prepared tentative drafts of the necessary papers, forms, and regulations, but, naturally, we had to await the passage of the law before we could put them into final shape and distribute them. During the month of September we completed our forms, hed them printed, and sent them to every bank in the United States—national banks, State banks, and trust companies.

We also had to designate local committees in the agricultural and live stock districts to cooperate with us, and we had to select for membership on the committees representative groups of bankers and business men—men with a sympathetic understanding of the agricultural point of view and with sufficient banking experience to enable them to pass upon the credit of the banks, as well as upon the credit of the farmers, whose notes constitute for the most part the paper on which our advances are made. Most of the committees were appointed during the month of September, but then they had to be educated regarding the powers and requirements of the corporation under the new law. Nothing of the kind had ever been attempted before, and, naturally, it took a little time for the committee to organize, to harmonize their memberships, and to instruct themselves as to the meaning and purposes of the act which they were to assist in administering. But I want to say here that they have shown a fine spirit of public service. They went to work with energy and promptness and they have devoted themselves unselfishly to the task. Although we have 33 committees all over the agricultural and live stock territory, we have been able to work with them in a most harmonious way and there has been a notable lack of friction.

They have really been the backbone of the organization through which we were enabled to function. They have served without any compensation, and many of the best bankers in the agricultural and live stock districts have been giving more time to our work than to their own business. They realized the importance of the corporation's activities to the people and, in fact, to the whole financial and business structure of their sections; and their work has been most successful. In very few cases have we asked them to revise their judgments; in very few cases, compared with the total number, have we declined to accept their recommendations. They have, of course, modified their policies from time to time in order to harmonize them with the policies of the directors of the corporation. This had to be done in order to administer our funds and exercise our powers in a way that would not be discriminatory as between the various sections of the country.

Occasionally peculiar and acute local situations requiring special and exceptional treatment have arisen; but by far the greater part of the work has been carried on under uniform general policies that have been applied in all sections of the country.

My approval of the proposal to extend the life of the War Finance Corporation, as provided in the bill under consideration, is based upon the study which I have been able to make of the situation as the work progressed, the contact which I have had with our committees, the visits I have made at various times to different parts of the country, and the frequent visits of members of the committees to Washington to explain their local problems.

These special problems arise sometimes from difficulties that are inherent in laws of the State. The laws of Nebraska, for instance, prevented any bank or financing institution from borrowing from the War Finance Corporation or anyone else an amount greater than two-thirds of its capital and surplus. That law, however, was amended at a special session of the legislature a few months ago. And the laws of Arizona were amended only a short time ago to enable the banks there to function more actively.

In a few States there are still some hindrances in the laws, but, so far as I know, there is no general distress due to such a condition. We have always sought the cooperation of the local banking organizations, business men, and farmers in overcoming any difficulties that arise, and we have been successful, for the most part, in obtaining it.

Too frequently there is an inclination to measure results by the amount of money loaned in any one State, or to a particular farmer. But it must be borne in mind that when our loans in Iowa, for example, relieved the agricultural situation there and enabled the banks to refrain from the forcing of liquidation, it meant that the corn and hogs of that State would not be forced on the market; that the farmers would have time to sell them more gradually as the market was able to take them; and that every other State interested in corn and hogs would share in the resulting benefit. Corn and hogs and sheep are sold in national markets, and so are cattle and wheat and cotton and all our other big staple, agricultural commodities; and the strengthening of any weak spot in the situation is helpful everywhere.

While our activities have been exceedingly helpful, as indicated not only by all the reports that we have received but also by the decline in the number of applications for advances received during the past two months, unquestionably there is still a situation that calls for continued assistance. The peak of our applications, the largest number, was reached in December, when we received in one week 472 applications from banking institutions and 27 from live-stock loan companies, making a total of 499. Since then the number has decreased.

For the week ending November 26, the applications from banking and financing institutions totaled $13,862,000; for the week ending December 3, $10,043,000; December 10, $13,354,000; December 17, $12,168,000; and December 24, $13,230,000. Since then, the weekly total has never reached these figures. For the week ending January 14, the applications aggregated approximately $11,000,000; for the week ending January 28, a little more than $11,000,000; and then they declined steadily until, for the week ending April 29, the total was only $1,742,000.

The applications for live-stock loans for the week ending December 3 reached a total of approximately $6,000,000; for the week ending December 10 they aggregated $5,748,000; January 21, $4,346,000; February 11, $3,096,000; March 11, $2,945,00; and April 8, $2,647,000; while for the week ending April 29, they amounted to only $1,198,000.

You will see, therefore, that the need appears to be declining, but it must be remembered that our work has involved more than the mere lending of money; it has involved also the giving of confidence, and I do feel, especially after my recent trip to the West, that, entirely aside from any advances that the War Finance Corporation might make, its continuation for another year would be a very helpful factor in maintaining confidence.

The agricultural and live-stock interests, the banks in agricultural districts, and the cooperative marketing organizations generally have been through a dreadful experience. I will not say that it has been confined to them, but it is nevertheless true that they have had an especially acute experience. I believe that they are entitled to the additional confidence that would proceed from a limited extension of the period during which the War Finance Corporation may function.

Many good business men and bankers understand intelligently the needs of agriculture in their territory, and I may say, too, that the manufacturers in the North and East have evinced a tremendous interest in our work. If it ever was lacking, there is now no lack of conviction on the part of the commercial and industrial interests that their prosperity is absolutely interwoven with and dependent upon a prosperous condition in the agricultural territory. The market for manufactured goods depends, in considerable measure, upon the buying power of the agricultural districts; and the market for the greater part of our agricultural output is in the manufacturing, industrial, and commercial centers.

Naturally, I have given a great deal of thought during these past few months, and especially on my recent trip, to the whole financial situation and the machinery for financing agricultural business throughout the country. I have examined the statements of thousands of banking institutions in the agricultural districts.

As I see it, in the light of my experience during the past year, there is one great trouble with the financial system of this country. Speaking broadly, it is this: Our fundamental financial conceptions and attitudes are based upon the imported English and Continental ideas of what constitutes soundness in banking. The financial machinery of Europe was developed to meet the requirements of its own industrial and commercial business, and a sixty or ninety-day banking facility is exactly what is needed to finance imports of foodstuss and raw materials, the manufacture of raw materials into finished goods, and the export of manufactured goods. But the basic business of America is the production and distribution of agricultural commodities, and sixty or ninety-day financing does not adequately meet the marketing needs of the producer.

We can profitably study European banking methods, but we should not slavishly imitate them. We must adopt what is helpful and serviceable to American business, agricultural, industrial, and commercial; but we must, on the other hand, modify foreign banking conceptions to conform to the normal processes involved in the production and distribution of our big basic commodities in America. The collapse in agriculture, and in the banking situation in the agricultural districts, was partially due to an attempt to collect loans on farm commodities in too short a period. The inevitable result was to force on the market an abnormally large volume of products in an unusually short period of time.

Production and consumption can not respond to the economic dogma of any school of financial thought. Failure to realize this and the arbitrary application of principles which are not adapted to American agricultural activities produced a breakdown in the machinery. We must free ourselves from theoretical financial doctrines and apply the rules of common sense. We must harmonize the machinery of finance with the usual processes of production and consumption. We produce one crop a year and we consume it throughout the year. The financing must be related to these fundamental facts. Our great staple crops and our live stock are neither produced nor consumed in 90 days, and we should not expect to market a year's production in 90 days. The need for longer term financing for our agricultural turnover is partially recognized by the Federal Reserve System in that provision is made for rediscounting agricultural paper for six months; but our financial system as a whole does not adequately recognize the necessity of synchronizing agricultural financing with the natural processes of production and consumption.

Bank deposits in this country, as in Europe, are largely demand deposits, and a considerable portion of them must be invested in short-time paper, so that they will revolve in a way that will meet the demands of depositors.

It is time, however, to draw a sharp distinction between short-time bank paper and the question of the liquidity of the security that underlies bank paper, long or short. I maintain that the six and nine months' loans on wheat and cotton, made by the War Finance Corporation to cooperative marketing organizations are as liquid, from the point of view of the security, as the 90-day paper representing advances to merchants and manufacturers. Long-time paper may be more liquid as to security than short-time paper. It may not be as well adapted as an investment for all of a bank's funds, representing deposits payable on demand, but the experience of the War Finance Corporation demonstrates that, when adequate financing for the time needed is provided, staple agricultural commodities are liquidated in an orderly way and, in fact, the liquid quality of the security is enhanced by a more gradual marketing process. The self-

liquidating quality of paper depends upon the orderly marketing of the commodities underlying it far more than upon the duration written on its face.

During the past year it was clearly shown that commercial paper depends for its liquidity on the orderly buying of the manufactured goods, and that this orderly buying, in turn, depends largely upon a purchasing power based upon the orderly marketing of our basic agricultural products.

We need to develop a fresh outlook. We need to revise our financial conceptions. And we need to do it in the freedom and in the light of common sense, instead of in slavish adherence to theoretical principles based upon the needs of a business governed by different conditions. Our finance needs Americanization.

That short-time paper does not always produce liquidity, but sometimes the opposite, is clearly illustrated by what happened last fall in the wheat situation. The speeding up of the marketing of the wheat crop in the Northwest was, in my opinion, responsible for a considerable part of the indebtedness which the banks and the farmers still have in the wheat territory. Everybody knows that the wheat was forced to market in the shortest time in the history of the country. The farmers got a low price for it; they did not even get the cost of production; and the banks did not get much liquidation of indebtedness. We made some advances on wheat and they are being liquidated in an orderly way; but by far the greater part of the crop was forced on the market in abnormally large quantities. And what was the result? The farmer did not get a good price, he could not pay off his bank, and his bank could not pay off its correspondents or the Federal reserve system.

We are still carrying some cotton from last autumn's crop. The cooperative marketing organizations through which we have made most of our loans on cotton, as well as on wheat, are getting good prices for the cotton of their members. We have been very careful to see that these loans conform to the principle of orderly marketing. We have not made any loans to carry commodities speculatively, even though it appears that the price may advance. The cooperatives have been selling week by week and month by month, and their average for the season will be a great deal better, of course, than those who sold all at once last fall, as the wheat farmers did in the Northwest, at low prices.

On the general situation, I think, Mr. Chairman, I might refer to my report to the President, in which I tried to embody in a short space my observations and conclusions. You are probably already familiar with the material improvement that has taken place in the market for farm products and in the banking situation in the agricultural territory. Through the improvement in the banks has come tremendous relief to the farmers.

Sometimes the question is raised as to whether or not we really reach the farmer. I will circulate here, for the benefit of the committee, memoranda regarding a few typical loans. You will note that, in each case, the farmers' paper back of the loan is listed by name and amount. Some of the loans that we have made to banks are secured by hundreds of farmers' notes. When we issue a statement saying that we have approved 100 or 200 advances during one week, that refers only to bank loans; under each of these loans there may be from 1 farmer's note to 300.

When I was in Minneapolis a couple of weeks ago, the Federal reserve bank, which holds the collateral for our advances, showed me one file which contained 11,000 farmers' notes falling due on one day. These notes are held as collateral against loans made by the corporation to various banks in the Minneapolis district alone. On one day 11,000 farmers' notes fall due! I merely wish to show you, by these typical loans in different parts of the country, how widely the advances are distributed.

Mr. DUNBAR. Will these be incorporated in the record?

Mr. MEYER. We do not mention the names of banks in our reports. Sometimes it might have a good effect and sometimes it might have a bad effect; but if you would like to have it in the record, I would prefer to eliminate the names of the institutions and of the borrowers, if you approve. Sometimes competitive banks make much of the fact that they do not have to borrow from the War Finance Corporation, although we felt that it was in the public interest to encourage them to borrow from us. It is nevertheless true that some banks that are not borrowing from us—perhaps they ought to—try to gain an advantage by showing that they have not borrowed either from the Federal reserve system or from the War Finance Corporation. I do not think we ought to do anything that would place a bank which is helping its farmer customers, even one that needs help itself, at a disadvantage.

When I went through the West, as I stated in my report to the President, the moisture conditions, even in those sections which have suffered frequently from drought, were better than they have been for many years. I understand that since then there has been too much moisture in some districts and too much snow and ice in others, but I still believe that the outlook for the coming season is the best we have had in several years.

Credit conditions are enormously relieved; and the repayments we are receiving from the banks every day, many of them in advance of the due dates, measure the great improvement that has taken place in the agricultural and live-stock situation.

Yesterday we received, in addition to $4,000,000 on one old export loan from an industrial corporation, repayments totaling $539,000 on account of our agricultural and live-stock advances. These repayments represent sales of hogs by Iowa farmers, sales of cotton by southern farmers, and liquidation of commodities by cooperative marketing organizations.

For instance, yesterday we received $91,000 from the Idaho and Washington Wheat Growers' Associations and the Oklahoma Cotton Growers' Association. The day before yesterday we received $668,000, of which $307,000 came from about 40 or 50 small banks in the different sections of the country and $118,000 from the marketing cooperatives, while $92,000 represented the liquidation of live stock and $150,000 of export loans. The previous day we received $687,000, of which $459,000 was repaid by banks, $159,000 by cooperative marketing organizations, $49,000 on live-stock advances, and about $18,000 on export loans.

In some States we have observed a condition which indicates that a good deal of the trouble has resulted from the lack of sufficient money on the land—the inability to borrow money at reasonable rates on farm or ranch mortgages. Although it was not my special business I canvassed the matter with the big life insurance companies last fall and asked them to go into the farm-loan mortgage business with all the resources they had available for that purpose, and I received some very satisfactory and gratifying assurances. One of them told me, if I remember correctly, that its loans on farm mortgages for the year 1921 would aggregate $40,000,000; and all of them indicated their willingness to cooperate.

The farm-loan system, I understand, has been making loans recently at the rate of about $18,000,000 a month, as against approximately $12,000,000 a month last fall. I conferred with the Federal Farm Loan Board here about the farm-loan situation just before I went West.

In certain States like Wyoming, Montana, Colorado, New Mexico, and Texas the need for mortgage money is not being adequately met by the system because of the limitation which prevents the land banks from lending more than $10,000 to any one borrower. As I am sure you appreciate, $10,000 would not be very helpful to the western grain farmers who cultivate extensive acreages or to the stockmen whose ranches, to be economical producing units, must be conducted on a fairly large scale. I understand there never has been a satisfactory market for mortgages on land that is devoted to stock raising, no matter how well suited for the purpose, and although the valuations per acre are small, the stockmen have been compelled to pay high rates of interest on ranch mortgages, and even then it has been difficult for them to get money. This was especially true when competition for capital forced up the price of financial accommodations so that even the best borrowers had to pay high rates on liquid securities, as was the case a year or a year and a half ago. The market for land mortgages was at a great disadvantage, and this situation was undoubtedly responsible for some of the congestion in the banks of the live-stock territory, because they became loaded down with land loans. In many cases they did not intend to make land loans; they merely financed the current operations of the stockmen, but as these operations did not return the money loaned and frequently involved losses, they took mortgages on the land as security.

I have suggested the formation in several Western States of additional joint stock land banks, which are authorized to lend from $37,500 to $50,000 on one piece of land. Such a bank has been established in Wyoming and others are in process of formation in other States. I feel that in certain districts a larger supply of money on land at reasonable rates will be very helpful to the banks, and through the banks to the farmers, because it will result in the transfer of unliquid, so-called frozen loans out of the banks, where they do not belong, into the hands of investors, where they do belong, and make it easier for the banks to finance the current agricultural needs of the farmers. On my

recent trip I was informed that more money, and more reasonable money, is becoming available for mortgage purposes throughout the western country.

As the figures I have given indicate, our funds have been used in large part to provide a rediscount facility for country banks. Approximately 85 per cent of the banks to which we have made loans are State banks and trust companies, while only about 15 per cent are national banks. In terms of dollars the loans to State banks represent about 80 per cent of the whole and to national banks about 20 per cent. This indicates the need of a rediscount facility for the country bank. Now, how to get that is the problem.

I have suggested that the State banks should be encouraged to join the Federal reserve system. As a matter of fact, out of more than 11,000 State institutions that are eligible for membership, so far as the capital requirement is concerned, only 1,595 have joined so far. Without attempting to indicate the ways and means, I feel that it would be highly desirable to encourage the nine thousand and odd nonmember State banks, or a considerable part of them at least, to enter the system so that they may have available the rediscount facility which our experience indicates is necessary for them. Certainly it has been necessary during the emergency, and I believe it would be most valuable to them and to the agricultural interests in the long run.

I have suggested also that the present limitation on the amount of capital required to join the system should be reduced. I understand that a similar suggestion has been made before, although I came to the conclusion quite independently. I think all member banks should have adequate capital, but it might be practicable and advantageous to reduce the present minimum of $25,000 to $15,000, provided satisfactory assurance is given that in the course of, say, two years, the capital will be increased to a minimum of $25,000.

I expressed the opinion in my report to the President that a limited amount of branch banking by national banks would be very helpful to the agricultural districts. My opinion in this matter is based on the experience of the War Finance Corporation in connection with a considerable number of exceedingly small banks—banks with a capital of only $5,000 or $10,000. Without disparagement to many small but useful institutions, you can readily see that a bank with $10,000 capital and deposits of $70,000 or $80,000, or even $110,000 or $120,000 (which is all that a $10,000 bank ought to take), with an overhead expense for banking quarters, proper management, and safes and paying perhaps 3 or 4 per cent on deposits—such a bank may not be a money-making proposition, and therefore not a sound proposition, notwithstanding the fact that its loans may carry 10 per cent, which is usurious from the point of view of the borrower. And furthermore, so far as I have been able to ascertain, they do not serve the small communities as they should. With all due respect to the dangers of centralization in banking—and, of course, we must admit that the War Finance Corporation is a very highly centralized form of banking, suitable only for temporary emergencies—in spite of that and with no idea of advocating extensive branch banking in the national banking system, I believe that the country communities would be better served by permitting national banks to establish a limited number of branches, say two or three, within a limited radius from the parent bank.

I say within a limited radius. By that I mean within the county or within an area to be determined by the Comptroller of the Currency or by some other official authority. In my opinion, the very small towns would be better served by branches of national banks, with good capital and good organization, than by these thousands of small banks that can hardly make a go of it, although in some cases they do succeed. The overhead charges and the interest they pay frequently make it impossible for them to lend money at reasonable rates. Ten per cent is too high for the farmer, but at the same time it may be too low to permit the bank to make any money. These high rates, I think, are largely due to the necessities of the small banks.

I will pass over the live-stock situation for the moment and refer to it later.

I have already touched upon the cooperative marketing organizations. We have approved large loans to such organizations on cotton, wheat, tobacco, rice, and other commodities, and I want to say here that our dealings with them have been entirely satisfactory and that their management has met all our requirements and regulations in a very whole-hearted way. They have not at any time insisted on anything that was not proper, and they have complied fully with the principle of orderly marketing. Our loans to these organizations have been exceedingly helpful; in fact, it was largely through them that we were able to reach the cotton situation on a broad scale and in an effective way.

The number of marketing cooperatives is increasing and, when they are soundly organized and properly managed, their operations are bound to be helpful to the agricultural interests and, in fact, to the business of the country at large.

California, perhaps, has suffered less from the agricultural depression than any other agricultural State, and there cooperative marketing has been carried on in its most highly developed form and on a very extensive scale. Its products have been marketed in an orderly way. While the War Finance Corporation has not loaned very much money to the cooperatives in California, this is due to the fact that many of them are so well established that their banking credit is as good as that of the best privately owned and managed corporations in the State. If I remember correctly, $250,000,000 worth of agricultural products were marketed through the California cooperatives last year. We have loaned them only about $1,500,000, because they were able to finance themselves through the local banks. On the whole, the banks in California are in very good condition and are able to meet, for the most part, the needs of the agricultural interests of the State.

Marketing through cooperative organizations involves fundamentally the more gradual, the slower marketing of the product, and as I said before a nine-month loan to such organizations on wheat—I do not mean nine months for all of it, but merely up to nine months' time in which the product may be gradually marketed—seems to me to be just as sound banking as a 90-day loan to a manufacturer, the sale of whose commodity depends upon a purchasing power that can not always be counted on in advance. The wholesale cancellation of orders in the summer and fall of 1920 produced a situation which demonstrated clearly that the short-time paper of a manufacturer is not always as liquid as it is supposed to be. He may find himself face to face with the same difficulty that has confronted the farmer—inability to market his product before the maturity of his note. Some unexpected calamity might easily arise which would upset his calculations and throw his whole marketing program out of gear. For instance, when war was declared in 1914, cotton exports to Germany, which normally takes large quantities, were cut off; but you have had the same experience also with manufactured and other products.

I feel, therefore, that, in financing the cooperative marketing associations, due recognition should be given to the fact that even a six-months' maturity may not be sufficient to permit the orderly marketing of at least a portion of the product.

I will turn now to the matter of live-stock financing, which I think is one of the largest single problems we have before us. On my recent trip I visited practically every State in the territory west of the Mississippi River, where the live-stock industry is so important. It is not an overwhelming factor in California, but there are over 6,500,000 head of live stock even in that State. Arizona is an important live-stock State. Texas is overwhelmingly interested in it. New Mexico, Colorado, Wyoming, Montana, Utah, Nevada, Oregon, Washington, and South Dakota all have important live-stock interests. The same is true of the western part of Nebraska; and, of course, live stock is a great industry in the Corn Belt—not the breeding end of the business but the fattening and feeding operations.

There is hardly a more important industry in the United States than live stock. Statistics show, I believe, that there is as much capital invested in the plant and equipment necessary for the production and marketing of live stock as there is in all the railroads of the United States. I think the Department of Agricultural estimated the value of the total output of live-stock products last year at over $4,000,000,000. So you can readily see that it is a tremendous factor.

While the modification of our banking conceptions and practices is essential to the more orderly marketing of our agricultural products, the live-stock situation, in some respects, at least, presents greater difficulties, because, as I stated in my report to the President, the industry has never been properly financed It involves a turnover of two or three or three and a half years, and there is no "home" to-day for live-stock paper of that duration. A lot of it is in the banks, where it does not belong; a lot of it has been financed through loan companies—that was the normal way before the recent collapse—but many of these companies are busy taking care of their old troubles.

Seeing the importance of this situation, while on my first trip through the West last September, I urged the bankers and business men in the States that are especially interested in live stock to form new loan companies through which we could function quickly. Salt Lake took the lead and promptly or-

ganized a company with a subscribed capital of $250,000, which has since been increased.

At Cheyenne the next day I told what Salt Lake had undertaken to do and asked that Wyoming take similar action. I was there only a few hours, but the next day I received word in Denver that it had been decided to form a company in Wyoming and that $200,000 had been subscribed at the first meeting. This was done through the efforts of the public-spirited bankers, business men, and stockmen of the State. That company now has a subscribed capital of approximately $1,000,000, of which $500,000 has been or will be invested in Government securities; and we have loaned over $6,000,000 through it. Each loan is carefully inspected, and I believe that the loans are as safe as any we have made.

In Texas a company with nearly $1,000,000 cash capital paid in has been formed and is in active operation. In New Mexico about $600,000 has been paid into a company which is functioning successfully in that State; and several other companies, each with substantial capital, have been organized in the Western States.

While we have encouraged the formation of these companies, it is understood, of course, that each company stands on its own merits and has no peculiar or favored relationship with the War Finance Corporation. Loans have been made not only through them but also through banks and through some of the old loan companies that were still able to function. Altogether, our loans on live stock aggregate about $78,000,000, and unquestionably they have been a vital factor in stabilizing the live-stock situation.

But the War Finance Corporation is a temporary organization. And I do not believe that the old loan companies, commonly called "packer companies," which, for the most part, were owned and controlled in Chicago, Kansas City, Omaha, Portland, Oreg., and Fort Worth, will again carry the burden they did. The owners have stood by those companies in a remarkable way and have maintained their solvency, although it required millions of dollars to do so. It was necessary to provide $7,000,000 additional cash for one company in order to keep it going. The paper of these companies, however, was never sold merely as live-stock loans; it was sold always on the basis that one of the large packing concerns was back of it. They have stood back of it, but I question very much either the probability or the desirability of having the live-stock industry financed by a few large companies whose credit is really the credit of the large packing companies. Instead, there are these new companies that have been formed locally, with locally subscribed capital, and I hope they will continue to function even after the emergency is completely over. I say this with no disparagement to the older companies, because, as I have said, their owners have stood by them in a remarkable way.

As there is now no place in our machinery where loans on live stock can be obtained with the assurance that the money will be available for longer than six months, although the need is for two and a half to three and a half years, I think Congress would be justified in giving the matter prompt consideration. I know that many bills relating to agricultural financing have been introduced, but I would like to suggest that the live-stock situation be given a place of special importance, and perhaps considered separately.

What we need, in my opinion, is a system of rediscount banks for live stock paper, and such a system could not and should not consider agricultural paper in general. In the main, the institutions that will lend on live stock are not the institutions that will handle general agricultural paper, and I feel that the problem can be more efficiently handled, more successfully handled, if it is treated as a separate proposition.

Another reason for special consideration at this time is this: There is no machinery for live stock financing today outside of the War Finance Corporation and what the banks are able to do. As to the banks, I do not know of any in the western country, in the range country, that are equipped to handle live-stock loans on a large scale. Owing to recent experiences, the old machinery is no longer functioning effectively, and I do not think the large banks in New York and Chicago and Omaha are anxious to do the volume of business that would be required if they were to take over the live-stock financing permanently.

The magnitude and importance of the industry, and the relief that would come to agriculture in general through the provision of adequate live-stock financing, make this, in my opinion, a matter which ought to be specially and separately considered. The industry itself not only has never been properly

financed; in my judgment, it has never been properly conducted. It has involved too much of the personal element; and the whole system of supervision and inspection needs radical development and improvement. The men in the industry themselves realize this and I am sure they will cooperate in any effort to improve the system.

It is going to take time to provide the new machinery that is needed. Other branches of agriculture could be financed effectively and quickly under almost any one of the many plans that have been proposed in pending bills, but it will take some time to get the live stock financing machinery established and in active operation, because it requires some new conceptions and methods, as well as some new machinery, and all these cannot be brought about in a short time.

The subject is so big that one could discuss it at great length, but I have tried to give you a rather brief survey of the situation as I have had an opportunity to see it. While we have had a difficult and disturbing experience during the past two years, I feel that if we profit by that experience and get some comprehensive, intelligent and real American conceptions about our financial needs and do what is necessary to meet them, the hardships we have suffered will not have been in vain.

In my judgment, sound policy and wisdom require the development to the utmost of existing institutions and existing facilities rather than the setting up of a lot of new machinery to do the things that can be done and should be done by adapting existing machinery to conditions which, perhaps, have always existed but which were not fully understood or appreciated until this acute crisis occurred. But on the live stock proposition there is now no machinery, and therefore I feel that it is entitled to early and special consideration.

I have deemed it a great privilege, gentlemen, to participate in this work. It has been a difficult task, but, at the same time, it has always been interesting, and the board of directors of the corporation and the entire staff, I want to say, have worked with very remarkable devotion and industry. They have been ready and willing at all times to work at night, on Sundays and holidays, when it was necessary to speed up the business. We do not have to operate at forced pressure now, because the organization is more adequate to handle the business, and, furthermore, there has been a marked decline in the applications for advances. The expressions from the country concerning the success of the work have been most gratifying to me, but I would like you to understand that we have a fine organization. Mr. Henderson, our general counsel, who is here with me, has been extraordinarily helpful, and we have had the finest sort of cooperation from bankers, business men, and farm organizations throughout the country.

If you gentlemen want to extend the life of the corporation for another year I suppose we may accept it, in part, as a mark of your approval, and, in part, as a mark of your feeling that the need continues. Frankly, the difficulty will be to maintain the volunteer organization that has been the backbone of the work. I refer to our local committees, 33 in number, the members of which have given generously of their time at a sacrifice to their personal business and without any remuneration whatever.

Personally, I hesitate to recommend the continuation of any governmental activity, because I know that Government officials are always suspected of trying to perpetuate their powers. But I can say that all the members of the board of directors of the corporation would be very much gratified if conditions were such that it would be possible to discontinue the work at this time, because they are all working here in a spirit of public service.

Mr. LUCE. Mr. Chairman, if Mr. Meyer has completed his statement I would like to address some questions to him upon the point that he has just reached in his remarks.

Mr. KING (in the chair). Have you concluded, Mr. Meyer?

Mr. MEYER. Yes, Mr. Chairman.

Mr. LUCE. I recall to your mind, so that we may get the right atmosphere, that my original opposition to the extension of the life of the War Finance Corporation was based upon my belief that private capital was ready to do the work and that I have no animus whatever in my attitude toward you nor your corporation, and I would like to put it in the record that I am very grateful for the work that you have done, the efficient work that you have done and I am also grateful for the help that has come to the farmers of the country, only still persisting in my belief that private capital could have accomplished the work. However, you have brought yourself in your remarks to the question of the bill before us. You have given much illuminating information about

the work of the corporation during the past year, and you have also enlightened us as to various measures that are before the committee, but I confess I did not get from your remarks the detailed information that I think would be helpful to me as to the particular proposal now before us, that of continuing the life of the corporation, and, perhaps, to get your views upon the matter concretely. I might take up item by item the various branches of the work and ask you why in your judgment it is necessary to continue the work beyond the 1st of July?

In the first place, am I right in my recollection that the life of your corporation will not cease with the 1st of July, but that you will continue in any event until these loans have been paid back?

Mr. MEYER. The authority to make new loans expires, under the present law, on July 1—the renewal privilege continues for 2 years. That is to say, any loan made between now and July 1, as the law now stands, may be renewed on maturity for a period not exceeding 3 years from the date on which the loan was originally made.

Mr. LUCE. Then the concrete proposition before us now is whether Congress shall authorize you to make new loans after the 1st of July?

Mr. MEYER. Yes, sir.

Mr. LUCE. With that in mind, let us take up these different classes of loans. We will take them right in the order which you mentioned them in the President's report. At that time you said you had made more than 6,500 loans to banks in the agricultural sections of the country. Will you please explain to us why, in your judgment, a public agency should, after the 1st of July, make new loans to banks in the agricultural sections of the country?

Mr. MEYER. Because of the condition of the banks in the agricultural districts. And I may say that we are constantly receiving suggestions from the Federal reserve banks that we should make a loan to a bank in a particular district, because some of the paper, which they took as short-time paper, has turned out to be slow paper. We can, as you know, make loans for a longer period than the Federal reserve banks can. Considerable relief has come to the large city banks through the War Finance Corporation's taking over some of the loans which did not conform to the short-time character of their business. With our authority to carry these loans for a year, in the first instance, and with the privilege of renewal, if necessary, we have been able to assist them there.

Mr. LUCE. But that is water that has flowed over the dam. I am asking now for the concrete reason why Congress should authorize you to make new loans after the 1st of July?

Mr. MEYER. Because the situation that required it in the first instance still exists, in part at least; because we are still receiving about 100 applications a week from banks; and because cooperative marketing organizations still need some assistance.

Mr. LUCE. We will come to that later, if you please.

Mr. MEYER. All I can say is that the country banks themselves, and, so far as I know, the Federal reserve banks, and the larger city banks feel that it would be helpful to continue it, because the conditions which made it necessary for the corporation to function during the past year is not entirely past.

Mr. LUCE. It is not entirely past?

Mr. MEYER. No; of course, you understand that we are not going out and seeking business to-day as we did in the beginning. The declining volume of applications indicates that relief has been effected and that the need has been met to a certain extent, but there are still some districts where the improvement is not as extensive as it is in others; that is to say, where the improvement either in agriculture or in the condition of the country banks is not so apparent. Iowa, perhaps, was in as bad a condition as any State in the country where we began to operate, but the situation there is greatly improved and during the past four or five months we have received repayments aggregating $2,500,000 on our loans in that State, which totaled about $23,000,000. I can not say the same, however, of North Dakota. Its wheat was forced on the market early in the season and there will not be much liquidation until the new crop is harvested and marketed. Texas is still in a strained condition; and we are still receiving a considerable number of applications from Oklahoma and from other States.

Mr. LUCE. But it is true, is it not, that at least the universal mass of testimony is to the effect that the frozen credit has been largely melted?

Mr. MEYER. It has in certain districts, but in others it has not. You know that when we take over frozen credit it does not liquidate it. It is liquidated for the bank, but it is still there.

Mr. LUCE. I understand.

Mr. MEYER. And 100 applications a week indicates that there is still some need. One hundred a week is only about 25 per cent of the peak number, but still it represents a considerable volume of business. I should feel very sorry if we had worked for six months and had not produced some results.

Mr. LUCE. I am asking now why there should be new loans, and you tell me it is because of the necessity of rediscounts.

Mr. MEYER. That the situation is not entirely past.

Mr. LUCE. I might put it that it is necessary to rediscount certain frozen credits that are not going to melt this summer.

Now, I picked up at random here the statement of one bank, a Georgia bank, and I find that the loans that you have made to it are secured by 151 notes. One of these notes falls due in May; 34 fall due in June; one in September, 104 in October, and 11 in November. Now, with the greater part of those notes falling due in October and November, will not the harvest of this year furnish funds to meet the obligations, in all probability?

Mr. MEYER. I hope so; but if you can tell me what the harvest this year is going to be you can do something that no one else can do. You must remember that the banks are confronted with a condition of debt and distress created by losses on previous crops. Some of the old notes will be paid off this year and some will not. But I am exceedingly hopeful about the present season. In Georgia the cotton growers had to contend with the boll weevil on an extensive scale last year, and I am not at all sure that they know how to meet it as well as they do in other States where they have had it longer.

Mr. LUCE. I find by this statement that the largest loan is a trifle under $4,000. There is another one for about $2,000. There are four loans from $1,000 to $2,000, and there are 64 loans between $100 and $1,000. The great bulk of the business is below $1,000.

Mr. MEYER. Yes, sir.

Mr. STEAGALL. Pardon me just a moment, Mr. Chairman, we will have to answer this roll call. It is now after 12 o'clock, and we will hardly have time to finish with Mr. Meyer now, will we?

Mr. LUCE. I have no great desire to keep him here or bring him back, but I have a few more questions.

The CHAIRMAN. I suggest that we might recess until 2 o'clock or 2.30.

Mr. LUCE. I have another committee meeting at 2.

The CHAIRMAN. That was the understanding, that we would recess until 2.30. Can you come back this afternoon, Mr. Meyer?

Mr. MEYER. I shall be very glad to do so.

Mr. STEAGALL. Your statement is so satisfactory that I would not want to put you to that trouble myself, but I think there will be several people here who will want to ask you some questions, so I think we had better take a recess and come back this afternoon.

The CHAIRMAN. We will recess then until 2.30 this afternoon.

(Whereupon, at 12.15 o'clock p. m., the committee recessed until 2.30 o'clock p. m. this day.)

AFTERNOON SESSION.

The Committee reconvened at 2.30 o'clock p. m., Hon. Louis T. McFadden (chairman) presiding.

STATEMENT OF MR. EUGENE MEYER, JR., MANAGING DIRECTOR WAR FINANCE CORPORATION—Resumed.

Mr. MEYER. I neglected, Mr. Chairman, to ask permission this morning to incorporate in the record some extracts from letters from various sources, indicating various ways in which our help has reached the farmer.

The CHAIRMAN. They will be inserted at this point.

(The extracts referred to by Mr. Meyer are here printed in the record, as follows:)

HOW THE WAR FINANCE CORPORATION REACHES THE FARMER.

A FEW EXTRACTS FROM TYPICAL LETTERS.

"We are glad to state that as far as our farmer customers are concerned, they have been very well taken care of during all the time of this financial stringency. We have had no large demand for additional loans, but it seems to us that the farmers are deriving a great benefit from the War Finance Corporation by being allowed extensions."

"We are located in one of the best agricultural spots of ———. We believe that we are as well acquainted with the farmers' affairs as anyone who is dealing with them, and from actual experience we can say that the aid we have received from you has been the brightest spot in the last two years' work; in fact, I am wondering what course we would have pursued had we not received this aid. Our farmers are as good as any in the State. They have worked hard and done the very best that they could, and we know that this aid has enabled them to carry their burdens much more easily, and eventually we are positive they will get back on their feet."

"Previous to making the application for this loan we increased our bills receivable nearly $50,000 to our farmer customers for money actually advanced for the purpose of buying cattle, and had we not been able to obtain this advance from the War Finance Corporation, we certainly would have been obliged to call our loans which we had made to the farmers, at least to that extent, as it was loaned with the thought in mind that we would obtain the money from the War Finance Corporation."

"As far as this bank is concerned every cent of the two advances we have had from the War Finance Corporation has been used entirely in the interest of our farmer customers. Were it not for this financial assistance it would have been absolutely necessary for us to have compelled our former customers to pay their loans, and in many instances this would have been disastrous to them. With the assistance we are now able to give them, through the War Finance money, they will be able to continue their farming operations without being forced into bankruptcy. We sincerely appreciate the assistance the war finance act is giving us, for we in turn are able to help our customers who are sorely in need of help."

"This plan has saved us calling in about $40,000 of our loans that were made to the farmers. We think this is one of the best moves that the Government has made for a long time."

"We feel that in this instance the loan has been a direct loan to the farmers. They have the money, and through the aid of the War Finance Corporation may continue to use it. Without this aid we should have asked the farmers who have been assisted in this manner to have reduced this amount."

"After making our application we either had to call in some of our loans or borrow to take care of our business, and we borrowed or rediscounted $18,600 of our paper with the ——— Bank, which we have or are paying off with the money received from the War Finance Corporation. If we had not anticipated getting this money, we would not have felt at liberty to ask our bank for additional accommodations, but knowing that we would be able to get this money from the War Finance Corporation, we had no hesitancy in asking for the additional accommodation. We are of the opinion that it was one of the greatest moves the Government could make for the State, and especially the farmers, for I knew of quite a number of banks, including the one above mentioned, that would have had to call on their farmers to pay up, and under present conditions it would have been the ruination of the majority of them."

"It is our opinion that every dollar we have received from the War Finance Corporation has helped the farmer indirectly where it has not gone to him directly. Since receiving the advance from them we have renewed or extended probably several times the amount of what we received, with confidence that in case we need further help we can get it from the same place. Since the War Finance money came into ——— our local elevators have raised the price of corn bought over their scales from 22 cents per bushel to 34 cents at the present time. We believe the money received by the banks of ——— from the War Finance Corporation is largely responsible for this increase."

"If we could not obtain War Finance funds it would be absolutely necessary for us to enforce liquidation very vigorously and make our borrowers pay up at the time when the sacrifice would spell ruin in many cases."

"We are well pleased with the prompt action of the loan agency, and our clients feel a great relief by knowing that they will not be called upon to pay their obligations at the present time."

"We think the War Finance Corporation is doing a lot of good in ———, and we appreciate the aid very much. When you carry the banks then the banks can carry the farmers, and that is giving the farmers time to liquidate in an orderly way. Otherwise we would have had to demand immediate payment."

"We believe that the War Finance has been a wonderful help to our farmer customers in that we have been able to extend their notes in full, otherwise we would have asked them to sell their grain and hay from 10 to 20 per cent of the principal of each note. It will tend to keep the price of corn at a higher level, as the market need not be flooded. It is making weak banks strong. A strong bank is an asset to the farmer."

"We consider such advance a direct benefit to the bank applying in that it has given the bank an assurance of extended credit of six months with privilege of renewal as intended by the war finance corporation act to a period of not exceeding three years, which are terms that we can not get from the Federal reserve bank or other correspondent banks, and those terms are an indirect benefit to our farmer customers in that we will not be compelled to call in their loans in order to keep our reserve up to the point where we could possibly repay our loans placed with correspondent banks upon their demand at the end of any 60 or 90 day period and thus compel such farmers to sell their grain or live stock before ready for market and entail a loss to them. We in turn can allow our farmer customers an extended credit on their obligations now held by us to the extent of such credit extended the bank by such advance by your board."

"From the relief extended us by the War Finance Corporation we are placed in a position to grant our farmer borrowers renewals for longer time with assuance of additional renewals, so as to give them an opportunity to feed their grain to live stock and liquidate their indebtedness in this manner at a better price instead of being requested to reduce their obligatons by selling their grain on a low market or selling their live stock before it is ready for market.

"We will also be able to extend some credit where it is essential and the security good, and where they have not already had a liberal line of credit extended to them.

"A good portion of the farmers have had enough credit extended, and can get along very nicely on what they are now borrowing provided they are not requested to reduce their obligations at present."

"The War Finance loans are sure a relief, both to farmers and banks. Had it not been for the advance we got from the War Finance we would have been compelled to take drastic action to call in money loaned to farmers, thereby putting some of them out of business and crippling others so that they could not successfully carry on agriculture. We were unable to get any more accommodations from our corresponding banks; not only that, but they were demanding that we reduce every time our obligations come due; it would either have been up to us to force the farmer or close our doors, as our reserve was all exhausted.

"We are getting ready to apply for another advance with which to relieve our corresponding banks and get ready for March 1, when the heavy demand comes from the farmer, so that we can tide him over till he can get his cattle and hogs ready for market and that he may not be forced to dump his grain on the market when it is at the lowest.

"We think the War Finance Corporation is the most wonderful relief that we could have received from any source."

"We were borrowing quite heavily of our correspondents and were not able to maintain a reasonable reserve. We are loaning to farmers every day to care for their present needs, mostly small amounts, as most of our farmers are of the opinion that they have borrowed more than they ought to have done, and are satisfied to be able to renew their present obligations. We are using our advances mainly to renew loans now on our books which we would have had to call had we not received this assistance."

"The money we have had so far from the War Finance Corporation has been used almost exclusively for the benefit of the farmers, as our loans are nearly all to this class. If we had not had this money come in we would have had to collect it from the farmers to take care of our declining reserve. While we have not made new loans to farmers we have been renewing the old notes of six months where we were having to collect them or else make new notes for 90 days only in order that they would have time to haul and sell something.

"We are not having much call for new loans from the farmers, but they are wanting to get out of paying their present loans at this time, and the fact that we are able to get these funds enables us to extend their loans. The farmers, while they may not know it, are getting the benefit of this in many more ways than one. As soon as we get a sufficient amount of paper rediscounted so that it eases up on us a little bit, will be in position to make new loans to the farmers for reasonable farm operations. This will allow them to start buying again from their friends and neighbors, and when they and the general public start buying, things will gradually start to going along again. This would not make much difference in one locality, but being spread over the entire agricultural section will soon be showing results. While we expect to see things start to going again soon, it will be naturally a little slow for some time yet."

"The functioning of the War Finance Corporation, both psychologically and financially, is being felt throughout the corn belt. The general opinion is that the corporation has been the means already of stabilizing the price of corn to the amount of 10 cents a bushel.

"It is also generally conceded that the corporation has stabilized the price of cattle at $1.25 a hundred, within the last 60 days. Even more favorable gains are shown in the sheep market. One thousand lambs were bought by a farmer at ——— 60 days ago for $3,500, and he has just marketed them, with a very little gain in weight, for a total of $5,600."

"* * * the sentimental or psychological effect of this measure has already borne fruit—an abundant crop, in fact. I am reminded of the story of the Irishman who thought his bank was shaky and called for his balance. When handed it in cash, he said, 'Begorrah, if I can git it, I don't want it.' The very fact that banks know that they have this new emergency crutch to lean upon has rendered them less concerned about their bills payable and more disposed to extend reasonable credits to customers. The whole atmosphere has changed for the better. Economists may not write into history that the War Finance Corporation is in any way accountable for rise of prices of cotton and tobacco, but the fact remains that had hard-pressed banks forced their merchant, 'middlemen,' and farmer borrowers to pay up as crops matured, we would have undergone the misery of low-priced (and short) crops and resultant failures from which it would take years to recover."

"In ——— the cotton association is moving along with great smoothness. The ——— bankers have given them a splendid credit for immediate purposes—enough to cover the period between the actual delivery of cotton and the storage of cotton, under the circumstances, that will permit the use of funds from the War Finance Corporation.

"Everybody in ——— is extremely proud of the assistance given by you. They are fully convinced that the mere announcement of the credits was not merely the biggest factor in persuading the ——— bankers to assist, but also the biggest factor in making the commercial buyers of cotton respond to the statistical position, thereby offering more in price at this time.

"Right now I do not hesitate to state that your assistance has been of more importance than everything else combined to prevent a terrible collapse, and to insure a distinct commercial success on the part of the ——— Association, representing a very huge portion of the ——— crop.

"All through the country, the thinking bankers and economists seem to be unanimous in the conviction that the work of the War Finance Corporation * * * has given agriculture and those dependent on agriculture, in finance, as well as production and marketing, a solid basis for active optimism."

"I feel that the war finance loans and the Government's attitude of willingness to help finance agriculture, so that some little encouragement can be given to honest, hardworking, industrious farmers, who are producing the Nation's food, is about the first ray of sunshine that has penetrated the gloom which hangs thick over this part of ———.

"There are a lot of farmers who are honest and industrious and competent, who will just simply have to sell out their farming equipment to meet the demand of pressing bills, and heretofore banks have had no choice but to exert this pressure. Now, however, with the possibility of relief through the war finance loans we can carry these fellows along and give them a chance for their lives, and as collections get better, if they do, we can, perhaps, take care of a few little things which sometimes arise, where a small loan would make a very big difference to our farmer customers."

"It is unanimously felt that the making of this loan by the War Finance Corporation was exceedingly timely, and that the effect of the loan has not only materially strengthened the market but has encouraged the industry. * * *

"The result has been that there is a confidence throughout the industry which did not exist prior to the making of this loan, and that the moral and financial effect has been extremely favorable in every part of the West which is affected by the movements of live stock.

"I think the creation of the War Finance Corporation was a wise piece of legislation, * * * whereby banks can avail themselves of the assistance offered, thereby enabling said banks (and there are hundreds of them over the State) that have made agricultural advances to secure funds, thereby enabling them to further finance the farmer, where his financial condition warrants, to enlarge upon stock raising, feeding, and to enable him to market in a more orderly way the products of his labor; otherwise the farmer in many instances would be compelled to liquidate his indebtedness, which would bring about a condition that would greatly impair his business

"The farmer is the beneficiary, and is to-day receiving funds that would have been impossible for him to have received were it not for the War Finance Corporation.

"To say that the situation in ——— has improved since the operation of the War Finance Corporation in this State is putting the stiuation rather mildly. Three weeks ago the elevators in ——— were paying from 19 cents to 22 cents per bushel for corn. Coincident with the granting of loans in ——— the price of corn has increased within this period from 28 to 33 cents per bushel, an increase of approximately 50 per cent. It is my belief that the work of the War Finance Corporation is very largely responsible for this advance. The banks in need of funds have by reason of advances made by the War Finance Corporation found it unnecessary to force liquidation of farmers' paper. Further, the fact that assistance is not only at hand but readily available has given both the country banker and the farmer renewed courage."

"The revival of the War Finance Corporation activities, and especially section 24, has provided the hook on which the agricultural and live-stock interests may hang their fate and hope. The needed aid just being extended to the country districts through the War Finance Corporation may not make good times immediately available, but it certainly will prevent things from being worse. As this whole Nation is fundamentally dependent upon the agricultural and live-stock interests, the needed aid which you are extending to these interests will save them for the time from disaster and present an opportunity for them to come back, which certainly they will do if given due time and encouragement."

"Just what happened to the cotton market in the South is having the same psychological effect on the grain market in the corn belt, and I can say to you truthfully, I believe, were it not for the War Finance Corporation, * * * corn would be selling to-day over the scales in quantities at 20 cents to 25 cents a bushel, whereas it is bringing now on an average of 35 cents, and very little being offered."

"The live-stock industry is receiving great impetus from the effects of the war finance. The growers are taking a new lease on life and really getting down to business again."

"We appreciate very much the work that is being done by your corporation, and we realize that without this assistance the farmers and the bankers would be up against a most desperate situation. With the facilities extended by your corporattion, it should be possible to protect the interests of the vast majority of farmers and stock raisers, while at the same time keeping your corporation perfectly safe."

"The relief which is being afforded to bankers and cattle loan companies which are in an overextended condition gives these institutions an opportunity of affording the greatest amount of relief to their borrowers, which otherwise they would be deprived of."

EXTRACT FROM CIRCULAR LETTER SENT BY A BANK TO ITS CUSTOMERS.

"This bank was one of the first in the State to apply for and receive funds. We have been granted and have received an advance of $100,000. * * * This money coming now relieves the pressure and the people of this county, our customers, get the benefit.

"By use of this money this bank is in position to waive payment for the present of notes owed to us by our good farmer customers, and we gladly do so.

"As a customer of this bank, if your notes are due or coming due soon, and to pay the same means that you must sell corn or oats at present prices or that you must sell unmatured live stock, don't do it. Come into the bank and we will renew your notes, asking only the same security and rate we have heretofore; and we may advance some additional money if your situation justifies. This refers strictly to farming and live stock operations, and not to land buying or purchases of outside securities, or promotions.

* * * * * * *

"Again referring to the war finance money. This money was intended for the use of the farmer in the present emergency, and this bank is doing all in its power to see to it that our farmer customers do in fact get the benefit.

* * * * * * *

"The good that has been done by the establishment of an agricultural loan agency of the War Finance Corporation in the State of ——— can not be measured by the number of advances or the amount of money advanced in this district. Our committee has never submitted an application to the War Finance Corporation unless we are convinced that it was one which could be granted without any danger of loss, but many applicants have been interviewed who could not meet the requirments but who have been shown how they could help themselves to better their position without our financial aid Perhaps the greatest benefit, however, which has been derived by the bankers in this State is that during a critical time when they would have otherwise been exceedingly slow in granting credits, they, having our assurance that if necessary the War Finance Corporation would come to their assistance, have been given a moral backing which helped them through the emergency."

"There might be some question as to the wisdom of this plan of relief for the farming community if it was to be a permanent matter, but there can be no question if considered as a temporary relief only, of the great good it is doing. Before receiving this advance we were straining every nerve to carry customers and to oppress no one, but had little resource to care for additional needs. Since receiving the War Finance help we have been loaning freely to help the farmers prepare their products for the market in a more quiet and orderly way and thereby relieving the strain and somewhat panicky feeling that existed."

"There is no question but that the money which the War Finance Corporation is furnishing this section has done an inestimable amount of good. Had it not been for this we would have had a very serious and disastrous situation to face, as the city banks had practically reached the limit which they could advance to their correspondents, and the correspondent banks were facing steadily declining deposits. Through the advancement of this money by the corporation, confidence, to a large extent, has been restored, there is a tremendously better feeling in the country, and altogether the prospects look considerably brighter than they did a few months ago."

"The board at Washington should certainly feel highly complimented and gratified with the wonderful success that is coming from their efforts, as general improvement is noted all over the country. Fat lambs sold at $14 25 in Denver the other day. Ewes that were $4 three months ago are now selling at $8 to $9. Stock cattle are from $8 to $10 a head. Wheat is higher than it has been for a number of months, as also is corn."

"I am still convinced, even where advances have not been made, there has been without doubt a very favorable influence as a result of the activities of the War Finance Corporation. It has stimulated a desire on the part of banks generally to discharge properly the obligations resting upon them."

"So far as conditions in this vicinity are concerned it has appeared to us for some time that the farmers were beginning to feel more reconciled to the existing conditions and also a little more hopeful. Since the rise of prices for farm products set in this feeling of hopefulness has increased. In our individual case after we began securing help from the War Finance Corporation we adopted a more liberal policy toward our customers, encouraging them to hold their surplus feed and in many cases advising them to buy live stock to feed out or if they were holding live stock in excess of their feed, to secure sufficient feed while the price was low. In other words, we have encouraged them to borrow money in order that they might not sacrifice on anything."

"The bankers in North and South Dakota and Minnesota certainly appreciated the work the War Finance Corporation has been doing to revive our agricultural and live-stock industries and the effect is already shown in the renewed confidence in the future, which is being inspired by the banking fraternity in the farmer and rancher."

"I wish to state that the live-stock situation out here has improved wonderfully. There is a strong demand now for all kinds of live stock. Ewes that could have been bought when I met you in San Francisco at $5 sold a couple of days ago at $10. Wool that was selling at 18 cents is now being contracted at 30 cents. Range cows that were valued at $30 are now selling at $45. And I feel that, after this season, live-stock men will not need assistance other than can be furnished by their local banks. However, the use of the funds from the War Finance Corporation will enable them to increase their herds for the coming two years instead of decreasing them to meet the payments to local banks."

"We are in position to know that there would have been a calamitous condition in the live-stock industry but for this timely aid and the same thing is true in less measure of the situation in the ——— district."

"You will be interested to know that advances made by War Finance Corporation in the West are largely responsible for the following facts: Ewe lambs which will be yearlings in the spring are now being contracted at $8 per head. Ewes coming seven years old have changed hands at $8. Old gummys have brought growers on mutton market here prices which net $5.50 per head at shipping points. Wethers in fair condition are bringing on Portland market $8.50 per head. Wool is being freely contracted by Boston dealers on the sheep back at from 25 to 30 cents per pound. Consignment houses are making cash advances to wool growers of $1.50 per head. Western packers at Seattle and Portland are contracting two and three year old steers at 7 cents per pound at country shipping points as far East as Montana for shipment to Pacific coast. This means that cattle growers receive from $75 per head. It should be certainly gratifying to members of board that their faith evidenced by their advances has been entirely justified."

"Just the other day, I had an application in person from one of the best banks in Missouri, but after they discussed the matter with their correspondent here, they concluded to postpone their request for an advance from the War Finance Corporation. My understanding is that they were offered funds at a low rate by their correspondent, and with assurance of renewal if desired; and right there is where you can feel gratified with results obtained by the corporation indirectly. There is no doubt but that the banks in the principal centers, and the country banks also, have been stimulated to take prompt and proper care of every call upon them—that is, every call that is legitimate and justified by existing conditions. It all combines to help relieve the pressure upon the farmer customer of the country bank and give him an opportunity to get on his feet again."

"Aid offered by the War Finance Corporation is a wonderful boon to the farmers of this State making it possible for many of them to be carried over until another crop period, forestalling the necessity of disposing of their live stock and commodities at a reduced price. It has been wonderful help in relieving the credit situation among the country banks. In fact it is a life-saver to the agriculturists of this state."

"Your War Finance Corporation has done wonders for the sheep industry * * *. The very fact that all of these sheep have not gone on the market this season and with the knowledge that many of them are to be taken care of for three years has stimulated the industry beyond belief. The effect of it all, as we view it, is that many of the outfits will be able to finance themselves within another year."

Mr. LUCE. Mr. Chairman, when the committee took a recess I was pursuing a line of inquiry directed partly to the pending bill, and had taken up the functions of the War Finance Corporation in the order in which they were mentioned in the report to the President, and was making inquiry about the necessity of new loans to banks.

These loans may be, of course, either renewals of old loans or for absolutely new business; and in the statement about a certain Georgia bank that was in the bunch, from which I took it at random, I observed that the great mass of the loans now outstanding upon which advances have been made—namely, 115 out of 151, fall due in either October or November.

Mr. Myer, those loans will come, I take it, after the crops have been harvested. Would you think that, coming after the harvesting of the crops, any considerable amount of them would require extension?

Mr. MYER. Very likely a considerable amount will require extension.

Mr. LUCE. In view of the improved condition of the farmer, how do you account for that?

Mr. MEYER. The cotton farmer and the other farmers in the South had severe losses two years in succession, at least, and in the South Atlantic States, particularly, the boll weevil has worked great harm. Nobody can predict with accuracy the outcome of the crop this year; but farmers generally are apt to owe money, and I am very much inclined to doubt whether all the farmers' debts will be paid off out of the crop in any one year at any time. In view of the large losses that were sustained last year, I think it is clear that they will not all be paid off this year.

Let me answer further, Mr. Luce. The necessity for banks to borrow has been produced, to a great extent, by the fact that, during the period of inflation, their deposits reached very large totals; while, during the period of deflation, they were reduced anywhere from 25 to 40 or 50 per cent. The borrowings are to take care of the decline in deposits, which it has not been possible to meet by a contraction of loans without hardship to the farmers. So that, while the banks are reducing their borrowings, and while, generally speaking, loans are declining and deposits are increasing throughout the country, especially in the live-stock sections where the farmers are getting good prices for their lambs, wool, and hogs, the magnitude of the deflation in deposits and the extraordinary excess of loans over deposits indicate that renewals will be necessary—not in all cases but in a considerable number. Nobody can say what the conditions are going to be at the end of this crop season; too much depends on the weather, the yield, the cost of production, and the prices prevailing when the crops and live stock are ready for market.

But, in any event, the War Finance Corporation now has authority to extend loans made prior to July 1, so it is unnecessary to consider that feature at this time.

Mr. LUCE. Then it would not be necessary to consider the authority for the renewal of old loans?

Mr. MEYER. No.

Mr. LUCE. Then we come right straight down to the critical question: Now that the emergency in the agricultural regions has so nearly passed, of what is the occasion for a governmental agency furnishing new capital to a certain section and class in the community?

Mr. MEYER. We are still receiving a large number of applications, not from a certain section but from many different sections.

Mr. LUCE. No; but none from the East, are you?

Mr. MEYER. No; because the banking facilities there are adequate to the agricultural needs.

Mr. LUCE. Would it not be probable that during our lifetime these same requests would continue as resulting from the same conditions of which you speak?

Mr. MEYER. So far as I know, there has never been a situation parallel to one that produced the condition with which we have been dealing. Therefore, I should consider it unlikely that it would continue indefinitely.

Mr. LUCE. We are trying to get down to the act contemplated, of continuing the Government in the lending of new capital after the 1st of July.

Mr. MEYER. Yes; that is true. We have been making loans—not lending capital—to meet an emergency situation. That situation was enormous in extent, and some banks have not yet been able to come to us, because they have not been in position to submit good loans or because they have not been in condition to make application. We are helping many banks to get on their feet by making advances to them on adequate security; and I may say that, in several instances, banks that were closed a few months ago are now again open. In some cases they have obtained additional capital from their stockholders, but in others they would not have been able to pull through without our help.

Mr. LUCE. Although normal times were at hand?

Mr. MEYER. They are coming, but they are not here yet.

Mr. LUCE. Now, in the matter of renewal of capital for banks——

Mr. MEYER. New loans, as distinguished from capital?

Mr. LUCE. New loans; yes. It is said that in Chicago where the banks a year ago were embarrassed by frozen loans, and in Iowa and other States the liquidation of credits has proceeded so rapidly that discount rates have recently dropped from 6 per cent to 5 per cent. Will you explain why, after the 1st of July, the banks of the regions particularly in mind in this legislation will be unable to meet their needs from their city correspondents, when we all know that there is about 77 per cent surplus in the Federal reserve system, and that the supply of capital is more abundant than it has been for many, many years.

Mr. MEYER. The situation in Iowa has improved so much that, if Iowa or the Chicago district alone were involved, I would not hesitate to say that there would be no necessity for the War Finance Corporation to continue making new loans, although it might be desirable to make some from time to time. We loaned $23,000,000 in Iowa, and that is one important reason why the Chicago Federal reserve banks and the other Chicago banks are now able to make such a satisfactory showing.

Iowa is a corn and hog raising State; the banks there have already repaid $2,500,000; and we are receiving additional repayments every day. But if you go to Dallas, Tex., you will find that the situation is different. If you go to North Dakota or Montana, you will find that there has been relatively little progress in liquidation, and that not much progress can or will be made until after the harvest this fall. And the extent of the liquidation then will depend a great deal upon the outcome of the crop.

Of course, we are dealing with a general situation, and one that is psychological in part. My own opinion is that the discontinuance of the War Finance Corporation, the withdrawal of its powers, would create not only a bad financial situation but also a situation of continued lack of confidence. Perhaps you do not realize, Mr. Luce, what our work has meant in the way of confidence and faith in the existing structure in the West and South. The people there have come to feel that the War Finance Corporation is necessary to them; and a sudden termination of its activities on July 1 would be an adverse psychological factor of considerable importance, detrimental not only to the agricultural and live stock districts, but also to the manufacturing and commercial centers of the East.

Mr. KING. Do you not think that the shutting down of the activity of the War Finance Corporation when the slump in prices came on, two years ago, was very hurtful and harmful?

Mr. MEYER. I certainly do, and I so stated to the committee when I appeared before it in support of legislation authorizing the resumption of operations.

Mr. LUCE. I thought I gave Mr. Meyer and the War Finance Corporation due credit for that when I began my inquiry. What I am driving at in this particular question is, Why is it that, after the 1st of July, the banks anywhere in the country will not be able to rediscount notes in sufficient quantity to meet the needs, with their city correspondents? That is a simple and concrete question.

Mr. MEYER. The simple, concrete answer to that question is that they are still asking for assistance from the War Finance Corporation and, in my opinion, the need still exists in part. This is the 1st of May. I had thought that, by this time, the requests would have ceased entirely, but they have not. The distress was so general throughout the agricultural territory that it is going to take a little time, and a little longer time than I expected, to put the banks in position to function in a normal way without having this additional facility available, whether they use it or not to any great extent.

Mr. LUCE. We have found, however, that in Dallas and in Minneapolis and all those western districts the discount rate has dropped as much as it has east of the Mississippi. I still fail to see why you think that the banks west of the Mississippi will be unable to discount their notes with the banking institutions, instead of with the War Finance Corporation.

Mr. MEYER. It might interest you to know that the Federal reserve banks of both Dallas and Minneapolis are asking us from time to time to make advances to banks in their districts. Only to-day the governor of the Minneapolis bank, who is here attending a meeting of the governors of all the Federal reserve banks, asked us to do more business rather than less. So that while your rate and your ratio may be quite correct, the fact is that the Federal reserve banks still hold a good deal of the paper which, although

eligible when it was taken, does not now comply with their eligibility requirements; and that paper must be turned over to some institution like the War Finance Corporation which can carry it for a longer period.

The CHAIRMAN. In that connection, if Mr. Luce will pardon my interrupting him: Are you rediscounting a class of paper that the Federal Reserve, under your rules and regulations, could not take?

Mr. MEYER. Yes; and we are taking paper which they are anxious to get rid of because it is no longer eligible paper. If you want to protect the Federal reserve system, and I am sure we all do, and to make it function in accordance with sound principles, some of these slower loans ought to be taken over because, in some instances, at least, they are keeping it from functioning under proper principles—or, in any event, under the principles as laid down in the act, whether they are right or wrong.

Mr. LUCE. We find that the function of the Federal reserve system was accomplished admirably by putting at the command of Dallas and Minneapolis and the other regions, the surplus resources of Cleveland, for example. Cleveland was a great lender all through the stress. Why will it not be possible next fall for Cleveland to lend to Dallas and Minneapolis any amounts of money that they need, thereby releasing, so to speak, capital enough to meet all the demands of this paper which you say can not get into the Federal reserve system?

Mr. MEYER. The Cleveland bank furnishes funds to the Dallas bank on eligible paper. It comes back to the chairman's point, that there is a difference in the character of the paper.

Mr. LUCE. You do not get what I am driving at. It furnishes to the Dallas bank money for eligible paper. Then the local bank discounts all its eligible paper, and is then put into a position to carry its ineligible paper very much better than if it could not discount its eligible paper, is it not?

Mr. MEYER. It would be in better condition, unquestionably; but, at the same time, the money received on its paper may not be sufficient to meet the shrinkage of deposits. It has to rediscount some of its eligible paper in order to carry its slower paper—to make up the difference between the deposits and the loans. But, in many cases, there is not enough eligible paper to meet the difference. That is why it was necessary, in the first instance, for the War Finance Corporation to rediscount for country banks, and why it should continue to function along this line, for the present at least.

Mr. LUCE. Will you refresh my memory as to the rates at which you discount?

Mr. MEYER. Five per cent where the maturity of the loan does not exceed six months and no renewal is stipulated or will be asked for; 5½ per cent for longer periods. Usually, when banks make application to the War Finance Corporation, they do so because their eligible paper is not sufficient to take care of their needs. It stands to reason that they would not pay us 5 or 5½ per cent if they had eligible paper on which they could borrow at 4½ per cent.

Mr. LUCE. Have you any figures as to the rates which the bank charges to the customers on that paper?

Mr. MEYER. At the limit, not more than 2 per cent above the rate we charge them. That they charge principally on live-stock loans, which involve considerable expense to the banks and cattle loan companies for supervision and inspection. But on other paper, the banks frequently lend at 6 or 7 per cent, and in no case, of course, over 7½ per cent.

Mr. LUCE. In some States they are lending at 6 per cent on cattle because the law of the State limits them to 6 per cent. What knowledge have you as to the commissions?

Mr. MEYER. There are not supposed to be any commissions, and I have no reason for thinking that there are. We have given strict injunctions at all our agencies to watch the interest charges. We have had only one complaint in our whole experience. The terms of the act are well understood and the borrowers generally know that they can not be overcharged under the law.

Mr. LUCE. Take such an instance as this, which I observe in the list before me, where a man has a note outstanding for $10.35.

Mr. MEYER. We know what the bank is doing. We have the note.

Mr. LUCE. Are you confident that the bank has charged him no commission on that loan?

Mr. MEYER. I have never heard of a commission on a loan of that character.

Mr. LUCE. Assuming it was a six months' note, the bank went through that transaction and was contented with 2 per cent profit?

Mr. MEYER. There may be no profit at all if you take into account the expense of doing the business. Every bank is accustomed to doing small business without much, if any, profit. Your wife and my wife perhaps have accounts at banks and keep small deposits. The banks may not make a nickel out of those accounts in the year, but they are glad to do the business anyway.

Mr. LUCE. I notice in this particular list 171 loans for less than $100.

Mr. MEYER. Yes.

Mr. LUCE. I have found it a little difficult to believe that the banks were content with a 6 or 7 per cent interest rate on those loans.

Mr. MEYER. We will be glad to show you the interest rate written on the face of the notes.

Mr. LUCE. Of course, you might find it difficult to ascertain about any commissions that were in it.

Mr. MEYER. Every application contains on its face an agreement on the part of the applicant that it will not charge on the loans which constitute the basis of the advance more than 2 per cent above the rate charged by the War Finance Corporation. There are heavy penalties for misrepresentation to the War Finance Corporation in this and in other respects. Misrepresentation under the law is punishable by imprisonment, or fine, or both. If, in the formal papers submitted to us, the situation is misrepresented in any way, the bank concerned would subject itself to the penalties prescribed in the act.

Mr. LUCE. How much available credit did you have in the Treasury when you started in, with your requirements? You had three or four hundred million dollars, did you not?

Mr. MEYER. You mean under the legislation——

Mr. LUCE. No; when Mr. Houston shut down.

Mr. MEYER. We then had on deposit with the Treasurer of the United States about $375,000,000.

Mr. LUCE. Then you have not exhausted your original credit?

Mr. MEYER. No; we have now a credit of about $291,000,000. We have collected very large amounts. On Monday and Tuesday of this week, for example, we collected approximately $9,000,000, including $4,000,000 from each of two large corporations on old export loans; and we shall probably get an additional $10,000,000 this month on one of our old railroad loans.

The CHAIRMAN. You have not issued any notes or debentures or certificates on your own account, have you?

Mr. MEYER. No, sir.

The CHAIRMAN. You have operated entirely without issuing any securities on your own authority?

Mr. MEYER. Yes, sir; we have not issued any bonds since April, 1919.

The CHAIRMAN. You have not gone into the market with any securities?

Mr. MEYER. No. We have collected large amounts from the railroads and other corporations to which we made loans under our war powers, or under our export powers prior to the suspension of operations in May, 1920. We are also are receiving considerable repayments on the loans made since the passage of the agricultural credits act last August. Since January 1, 1922, our repayments on all loans total more than $61,000,000.

The CHAIRMAN. I remember when you assumed the management of the corporation after its revival, previously there was a loan of four or five million dollars to the Baldwin Locomotive Works.

Mr. MEYER. That was repaid yesterday.

The CHAIRMAN. Paid in full?

Mr. MEYER. Yes, sir.

The CHAIRMAN. And there were several loans of that type.

Mr. MEYER. Yes. We made a loan to the International General Electric Co., and they paid us more than $10,000,000 in December. The New York Central paid us $17,500,000 in December, and the International Harvester Co. repaid $4,000,000 on Monday. The Rock Island is going to pay us $10,000,000 in a few days—or inside of a month anyway. We are liquidating these old loans as promptly as is practicable; and I think the banks want to liquidate with us as soon as they can do so without detriment to the agricultural interests.

Mr. LUCE. Going on to the next class of loans, those to finance live stock. If I have rightly interpreted your statement there is no reason to suppose that unless we devise a new system of handling live stock loans, the need for your assistance may not be perpetual?

Mr. MEYER. I feel that it is necessary to provide some machinery and agencies to finance the live stock industry; and I may say that I have never heard any one disagree on this point who understands the live-stock problem.

Mr. LUCE. I quite agree with you. I am trying to find out and get an answer to just one single question: Why should we continue a temporary emergency measure into the next year; and I have satisfied myself as to your views about banks.

As to the matter of live-stock, I am not yet clear as to why you think an emergency will continue into the next year which will not continue beyond the next year.

Mr. MEYER. Because I hope that before July 1, 1923, the need—the real need—for a better system of live stock financing will be reflected in action by the Congress.

Mr. LUCE. That is just what I had supposed. That's all.

Mr. MEYER. I have not come in contact with any bankers familiar with live-stock financing who do not agree with that.

Mr. LUCE. The third question is relating to cooperative marketing associations.

Mr. MEYER. Yes.

Mr. LUCE. Do you recall any circumstances relating to an application from a marketing association in New Hampshire—a cooperative association in New Hampshire?

Mr. MEYER. I remember we had a discussion concerning some proposition from New Hampshire but I see so many people that I do not recall the details.

Mr. LUCE. It happens that, so far as I am aware, this was the only instance in which New England sought to profit by your institution; and the belief was expressed that they were unduly rejected; so that I want to know if you know why New England should not have a cent out of this?

Mr. MEYER. Probably they did not bring us a proposition that complied with the law or the requirements of the corporation. All our loans to cooperatives are made on the basis of staple, nonperishable agricultural commodities, properly warehoused, graded and classified. The large cotton, wheat, and tobacco cooperatives have met all these requirements, but there are many organizations all over the country which have not been able to do so, because they are not marketing cooperatives in the real sense of the word. Many of them are, in fact, farmers' stock companies that buy and sell in a commercial way. They buy and sell hay, grain, feed, coal, and agricultural implements and do a regular merchandising business. Some of them are called cooperatives that are not. As I remember it, the New Hampshire proposition was rather of the character of a merchandising enterprise, the buying and selling of commodities for farmers; they did not offer us agricultural products properly warehoused with a view to orderly marketing. Am I right about that, Mr. Henderson?

Mr. HENDERSON. I think that is correct.

Mr. MEYER. We offer the cooperative marketing organizations all our facilities, and all the support they can reasonably expect, if they are in a position to comply with the law and our requirements. There is no discrimination against New England. I live in New York myself. The fact is that the New England banks are taking care of the farmers there.

Mr. LUCE. I have understood that you made a loan in New York of $600,000.

Mr. MEYER. Yes; but the money, of course, went to a great many different farmers.

Mr. LUCE. Yes.

Mr. MEYER. I assure you that I have no prejudice, and I know of no prejudice on the part of the other directors of the corporation against New England. I have a farm within 4 miles of the Connecticut line.

Mr. LUCE. That is very gratifying, indeed.

Mr. MEYER. New England has benefited from our work through the improvement in general conditions which has enabled her to market a great quantity of her manufactured products in the agricultural sections.

Mr. LUCE. Why do you think that an emergency will exist beyond the 1st of July requiring new loans to cooperative marketing associations?

Mr. MEYER. Because, in the first place, the volume of products marketed by these organizations is greater than the local banks can take care of. In the second place, the cooperatives have always needed some financial assistance—they have never been adequately financed.

Mr. LUCE. Then it is not an emergency question; it is a matter of general bank facilities that you raise and not an emergency?

Mr. MEYER. It has been a chronic emergency, and the fact that it has not been met before is no reason for not meeting it now.

Mr. LUCE. A state of perpetual emergency exists in all our personal finances, I know; but I am not so sure about it as a business proposition.

Mr. MEYER. Of course, it is not certain. I am merely expressing my opinion.

Mr. LUCE. You do not know any particular reasons why an emergency should be anticipated in the matter of cooperative associations beyond the 1st of July, I take it?

Mr. MEYER. Our loans to the cooperative marketing associations have been exceedingly helpful, and I may say that, in many cases, the money has not been used, because the ability to get it from the War Finance Corporation gave the whole situation stability. The local banks were able to do much more because they knew that the corporation was back of them in the first place, and back of the cooperatives, if necessary, in the second place, and that if they needed the money at any time they could get it from us. In other words, our loans to the cooperatives helped the local banks to function much more effectively.

I should anticipate that the extension of the life of the War Finance Corporation will result not necessarily in a large number of loans by the corporation but rather in the more effective functioning of the local banks, because they will rely, for their confidence in the situation, on the fact that the facilities of the corporation are available in case of need.

Mr. LUCE. I have but one more question that I can ask before I must go to answer a roll call.

On the last page of your letter to the President, you advised that the period during which the War Finance Corporation may make loans, be extended until January 1, 1923. The bill before us is a 12-month bill instead of a 6-month bill.

Mr. MEYER. Yes.

Mr. LUCE. Have you changed your mind since you advised the President in that particular?

Mr. MEYER. I have adopted what I believe to be the point of view of the majority of the members of Congress and also of the President.

Mr. LUCE. But I want your view.

Mr. MEYER. Yes, because it seemed to be the universal sentiment that the period during which the corporation may function should be extended for a year.

Mr. LUCE. That is other people's sentiment. I wanted your sentiment.

Mr. MEYER. My belief was that the six months would be sufficient if Congress passed legislation dealing with live-stock financing. However, an additional six months' extension, if not needed, would do no harm; and, if needed, would be helpful. Therefore, I am not limiting my recommendation to six months.

The CHAIRMAN. I want to ask you one or two questions about this live-stock proposition. As I understand it, you are suggesting the organization of branch banks under the Federal Farm Loan Act.

Mr. MEYER. The organization, by districts throughout the country, of a system of rediscount banks under the general supervision of the Federal Farm Loan Board—operating more, however, as the joint stock land banks do, rather than as the Federal land banks.

The CHAIRMAN. In other words, you would have these cattle finance companies organized by private subscription?

Mr. MEYER. Yes.

The CHAIRMAN. To be supervised by the Federal Loan Board?

Mr. MEYER. Yes; but issuing their own securities.

The CHAIRMAN. And they would take these cattle loans and consolidate them, similar to the present practice of the Federal Farm Loan System.

Mr. MEYER. Of the joint stock land bank system.

The CHAIRMAN. Take the farmers' securities and put them in the Treasury and issue against them notes?

Mr. MEYER. Issue their debentures secured by the live-stock paper and having the rediscount institutions back of the loan companies.

The CHAIRMAN. How would you capitalize them?

Mr. MEYER. I would capitalize them by having the loan companies subscribe to their stock.

The CHAIRMAN. Then you would have these loan companies privately organized?

Mr. MEYER. Yes.

The CHAIRMAN. They would occupy the same position that the land banks do?

Mr. MEYER. Yes.

The CHAIRMAN. And then they would subscribe to a common fund which would be the capital of the selling agency?

Mr. MEYER. Yes.

The CHAIRMAN. And that selling agency would be a separate institution, but would be controlled within the Farm Loan Board?

Mr. MEYER. The bill, as it is being prepared, provides for a combined control by some directors representing the loan companies which subscribe to the capital stock, some directors representing the Federal Farm Loan Board, and others representing the public interest in the situation.

The CHAIRMAN. Have you a bill prepared?

Mr. MEYER. It is not yet completed, Mr. Chairman.

The CHAIRMAN. Yes.

Mr. MEYER. Possibly it may be desirable, in the first instance, for the Government to subscribe to some of the stock of the rediscount organizations, the subscription to be repaid out of the surplus as earned. I am not certain whether that would be advisable or not, but, in any event, it would not run into any considerable amount.

The CHAIRMAN. From your experience and observation, coming in contact with these cattle loans—and I agree with you that there is need for the financing of that paper—what class of debenture or obligation would you suggest? Would you suggest six months' paper?

Mr. MEYER. No.

The CHAIRMAN. Or a bond or debenture running over a period, say, three years?

Mr. MEYER. Yes; from one to three years.

The CHAIRMAN. What would be the form of security for the market?

Mr. MEYER. From one to three year paper.

The CHAIRMAN. And you would market that through investment channels?

Mr. MEYER. Yes; I would favor one to three year paper.

The CHAIRMAN. Would you think that it would be a class of paper that would be suitable, generally, for banks to invest in?

Mr. MEYER. The system ought to be organized on a thoroughly sound, solid basis. I do not think that banks generally should invest in two or three year paper, except to a limited extent out of funds that need not be kept very liquid.

The CHAIRMAN. Would you expect this parent institution to have the rediscount privilege?

Mr. MEYER. Of the Federal reserve system?

The CHAIRMAN. Of the Federal reserve system.

Mr. MEYER. No. It is just the fact that this sort of paper is not suitable for rediscount in the Federal reserve sysem that makes it necessary to obtain the money from other sources. There ought to be a good market for such paper from several sources. Many investors like a short-time investment.

The CHAIRMAN. Would you consider that would be suitable paper for savings banks and banks of that character?

Mr. MEYER. Savings banks are governed by State laws which, in most cases, would prevent them from taking it. But, aside from that, I feel that the paper ought to be made so good that it would be suitable for anybody that wants to make a two or three year investment. Properly scrutinized and supervised, it would be a very valuable investment indeed, because it is self-liquidating. But live stock is different from a crop of wheat, because the wheat is sold every year, whereas cattle, for example, require from one to three years to mature.

The CHAIRMAN. Exactly.

Mr. MEYER. Cattle paper is in a class by itself. That is the reason it needs some separate treatment and some separate machinery. Furthermore, the industry needs to be put on a more solid basis so far as the security is concerned.

The CHAIRMAN. What would you suggest as to how this paper can be secured?

Mr. MEYER. It should be secured by the live stock on a conservative valuation. It should be secured by adequate capital in the loan company to take care of possible losses, and it should be secured, again, by the capital of the rediscount banks and the accumulated reserves of these organizations.

The CHAIRMAN. But, in the first place, as the herdsman or farmer holds these cattle, how will he secure his bank; by a chattel mortgage?

Mr. MEYER. By a chattel mortgage, yes; and the paper should be further secured by better methods of supervising and inspecting the live-stock collateral.

The CHAIRMAN. You mean by an expert who would go around and inspect the cattle as to condition?

Mr. MEYER. Exactly. Take sheep, for example. As they grow old they have to be weeded out and replaced by young stock.

The CHAIRMAN. Practically in the same way as the bank-loan people send out appraisers to appraise land?

Mr. MEYER. Yes. A system of this kind will gradually develop a corps of honest and competent inspectors to supervise the collateral. I may say, in passing, that the collateral, in many cases, has not been properly supervised under existing methods during the past year and a half. Perhaps the methods were all right in theory, but frequently they have not worked out satisfactorily in actual practice.

The CHAIRMAN. You mean that in a period of stress such as we have gone through lately, when the owners of cattle in the West could not feed their cattle, and did not have sufficient credit to buy them feed, there would be a possibility under this plan of their getting, through loans from a corporation of this kind, the money necessary to buy the feed?

Mr. MEYER. Yes.

The CHAIRMAN. And such an emergency as the cattlemen have just passed through would not be brought about again?

Mr. MEYER. Yes.

The CHAIRMAN. In other words, it would be a stabilizer?

Mr. MEYER. Exactly; and this structure ought to furnish the foundation for live-stock credit on safe and sound lines. You understand, of course, that the loans made through it may be supplemented by local bank loans on second mortgages to take care, for a short time, of additional needs. In many of our loans, we hold a first mortgage on the live-stock, while a local bank holds a second mortgage as security for expense money advanced by it to the borrower; and when the lamb or wool is sold, a part of the proceeds goes to the bank.

The CHAIRMAN. In listening to your very interesting statement this morning, I inferred that your advocacy of this plan is really to permit the gradual liquidation of the War Finance Corporation, and to put this part of the financing of this important industry on its own foundation.

Mr. MEYER. Yes, Mr. Chairman, that is what I have in mind, because I do not see how the live-stock industry is going to be financed when the War Finance Corporation ceases to operate. Many of the banks have had a difficult experience with live-stock loans; they bought six months paper which they later found was not six months paper at all, and they will not be anxious to go into the business again on a large scale. The packer companies, in my opinion, are not going back into it on an extensive scale if they can get out of their present commitments; and it is a form of financing that is not suited to any particular part of our present machinery. That is the only reason I suggest the establishment of new machinery. I am not in favor of creating new machinery to do things that can be done by existing institutions.

The CHAIRMAN. Am I correct in the inference then, that the establishment of this agency for the financing of cattle paper would give corresponding relief to the money situation, and enable the established financial institutions to take care of the other rural credits, taking into consideration the farm loan associations?

Mr. MEYER. I feel it would be most helpful in freeing the banks of these longer time loans, so that they could function more fully and satisfactorily with respect to the general agricultural needs.

The CHAIRMAN. Take for example, another big crop—the cotton crop. That in the south is a one-year crop as the wheat crop is in the north. Those are two big commodities that have to be financed. Would you think that any other machinery was necessary to take care of either one of those crops, if we take care of the cattle situation?

Mr. MEYER. I think that if the live-stock situation were adequately taken care of, there would be immense relief in almost any state. Take, for instance, Oregon and Washington and Idaho. They are wheat and cattle States and the banks are attempting to serve both the wheat growers and the cattle raisers; but the banks are loaded up with long time loans on cattle, and they can not function in an entirely satisfactory way with respect to the general agricultural needs. And, essentially the same thing may be said of Montana and South Dakota.

In Eastern Nebraska, where they produce corn and hogs, the banks with the help of the War Finance Corporation, are taking care of the situation, but that is not true of the western part of the State, which is devoted largely to cattle raising.

In Iowa the banks can meet the needs of the feeding and fattening business because it involves short time paper, which is red'scountable with the Federal Reserve System. Oklahoma is a mixed agricultural and live-stock State.

There are large areas of the country where the agricultural and live-stock needs are mixed, and the banks would be in far better position to make loans for general agricultural purposes if they were relieved of the slower live-stock paper.

Mr. STRONG. What conditions did you find in Kansas?

Mr. MEYER. Kansas is somewhat like Iowa, and conditions there are greatly improved, but the law limits the borrowings of Kansas banks to relatively small amounts compared with their capital. On that account our loans in Kansas are, perhaps, relatively less than those in other corn belt States, but, nevertheless, the farmers and stockmen there have shared in the benefits resulting from the loans made in the neighboring States. As a matter of fact, we are getting considerable repayments from Kansas, and the banks seem to be taking care of the situation fairly well, although this is not true in all cases.

The difficulties that we have experienced in Kansas have been due largely to the laws of the State, not to any lack of desire on our part to help the banks and, through them, the farmers and stockmen. We have made a number of loans on live stock in Kansas and a good many to banks for agricultural purposes. The national banks, as you perhaps know, are not limited in their borrowing, as the State banks are. We have been over the situation in detail and have discussed it with the governor and the State banking department. We are ready to do our part if the State will put itself in position to cooperate. In the corn belt the crisis is over to a considerable extent, and, as I have said, Kansas has benefited from our loans in Iowa, Nebraska, Missouri, and other States, where corn is now selling around 50 cents at country elevator points, and hogs are commanding good prices.

Mr. STRONG. Conditions are much better than they were?

Mr. MEYER. Yes.

Mr. STRONG. Do I understand you that as to any legislation looking to the relief of agriculture you take the position that legislation should give particular relief to live stock and leave the farmer to go to the Federal reserve system?

Mr. KING. No; he did not say that.

Mr. STRONG. I thought he said that.

Mr. MEYER. I said that live stock constitutes a rather distinct and separate problem, and the reason is that six months' paper does not meet the needs of the grower of cattle and sheep.

Mr. STRONG. No.

Mr. MEYER. It is unsound business to finance a three-year process on a six months' basis; and as there is now no place for three-year live-stock paper, a place should be made for it.

Mr. STRONG. Of course, as you know, there are several bills before this committee, and there is a great deal of suggested legislation looking to the financing of both the farmer and the cattleman. The cattleman needs financing from one to three years, while the farmer generally needs only one year.

I wondered if you thought, in creating such an organization to take care of the cattleman, that we should leave the farmer to be taken care of in the Federal reserve system?

Mr. MEYER. I have made some recommendations in my report to the President.

The CHAIRMAN. By the way, I am going to suggest that you insert with your statement in this hearing the report that you made to the President.

Mr. MEYER. I shall be very glad to do that, Mr. Chairman.

I have suggested in my report that it might be desirable to permit national banks to establish a limited number of branches within a limited radius from the parent institution. If this were done, I believe it would result in providing the smaller communities, where the agricultural needs frequently are greater than the financial facilities offered, with stronger banking resources. I have suggested also that the minimum capital required for admission to the Federal reserve system be reduced with the view of encouraging State banks to join the system. I did not name a specific amount in my report, but I think it might be desirable to reduce the minimum to $15,000, the bank, in each case, to give an undertaking that it will increase its capital gradually, say within two or three years, to $25,000. This would make the rediscount facilities of the Federal reserve system more available to the country districts and help to improve the banking situation in the smaller communities. There are more than 9,000 State banks now eligible, so far as capital is concerned, to join the system, and they ought to be encouraged to do so. The problem should be carefully studied with the view to seeing what may properly and reasonably be done to make it more attractive for them to join, without attempting to put any pressure on them. I believe that, in this way, the Federal reserve system could be made more useful to the farmer. And I believe also that the national banking system could be made more useful to the farmer by permitting the establishment of a limited number of branches in any one neighborhood.

I do not want you to gain the impression that I am disparaging the State banks that are soundly organized and properly managed. They have done a wonderful work during the emergency through which we have been passing, but, in many cases, their resources are inadequate, and, of course, a small bank can not make large loans. Furthermore, on account of their large overhead expenses in proportion to the volume of business they are able to do, they are frequently compelled to charge interest rates that are too high.

Mr. STRONG. I agree with you that the small banks should be encouraged to go into the Federal reserve system; but I doubt if the branch bank is a good remedy.

Mr. MEYER. The two things together might help to remedy the situation.

Mr. WINGO. Is it not true that the result of having these branch banks is that they just take all of the money out of the small communities and carry it to the large centers?

Mr. MEYER. Carried to excess, that may easily happen.

Mr. WINGO. Is not that the rule?

Mr. MEYER. I do not think there has ever been any branch banking along the lines I am suggesting—that is, the establishment of a limited number of branches in a given territory. The condition to which you refer has been due to the spreading out all over a State of some large bank that is managed by a man who is not familiar with the local situation in the various communities. But if the number of branches, as well as the radius within which they may be established, were limited, I think that difficulty would be eliminated.

Mr. WINGO. Has not that been tried out?

Mr. MEYER. I have never seen it tried anywhere.

Mr. WINGO. It has been tried in my country.

Mr. MEYER. A limited number of branches in a near-by territory?

Mr. WINGO. Taking resources from the small communities instead of—that is the very reason that the big banks go out and get to be correspondents of the small banks, agreeing to do all kinds of things for the small banks, so as to get to carry their accounts and carry their surplus funds; tell them, "You need not carry any money; we will furnish you with money"; and it just drains the little banks' money in the small communities.

Mr. MEYER. Of course, if you want to keep the money in an agricultural community all the time, the year around, regardless of the needs, it would have to be put into fixed investments and then the funds would not be readily available to take care of the seasonal peak loads.

Mr. WINGO. Agriculture has dwindled very rapidly in England, has it not?

Mr. MEYER. Yes.

Mr. WINGO. Have not all the writers attributed that to their vicious banking system?

Mr. MEYER. There are banks in England with perhaps a thousand branches—branches all over the United Kingdom, but all centering in London. I am opposed to that form of banking organization for this country. But, in my opinion, the establishment by a national bank of a limited number of branches, within a limited radius, so as to make available to the smaller communities the larger resources of such an institution, would be helpful.

Mr. WINGO. How are you going to eliminate the natural selfishness of human nature, that is always predominant, so that you have that situation there? You say that this bank shall not have branches farther away from it, say, than 50 miles. Then a larger bank—for illustration we will take Kansas City. You will not permit a Kansas City bank to have a branch any farther away than 50 miles; but it would be very easy to have a control of the stock in another central bank out here a hundred miles away, and so you could cover the whole country.

Mr. MEYER. That can be done now, and is being done, without any branches, but I think the branches would tend to overcome that situation. There are so-called chain-bank systems all over the country.

Mr. WINGO. Then do you propose to legalize the chain-bank system?

Mr. MEYER. No, I do not. I think what I have suggested would offset it and would put the larger resources of the larger banks into the smaller communities, where the local resources are inadequate. Many a $10,000 bank does not properly serve these communities. It may have deposits of $100,000, but it may pay interest on these deposits and then charge higher rates on their loans. Still, in spite of high interest charges, they do not always prosper.

Mr. WINGO. I have in mind one little country bank with $10,000 capital stock. That is in a little village where they have one or two general stores only. That $10,000 capital stock is larger in proportion to the needs of that community than a large bank at the county seat of that very county which has $25,000 capital.

Mr. MEYER. Perhaps $25,000 is inadequate for their needs, while $10,000 is more than adequate in the other place. You are speaking comparatively.

Mr. WINGO. Well, the whole thing goes comparatively, does it not?

Mr. MEYER. Yes; but I would not authorize a $10,000 bank to establish branches. I would say that no bank with less than $50,000 capital should establish branches.

Mr. WINGO. Do you not know that if you legalize the chain-bank system——

Mr. MEYER. I do not propose to legalize the chain-bank system.

Mr. WINGO. That is the effect of branch-bank proposals.

How many branches would you authorize of a bank?

Mr. MEYER. Two or three.

Mr. WINGO. Do you not know that if you authorized three, in the average agricultural community one large bank, if it had authority, with its branch banks at the county seats, they could absolutely drive out of business the little local banks established by the local communities? Has not that been the experience even of urban communities? Has not their experience been, where branch banks were authorized in the cities, that they would drive out little banks that were out in the suburban villages, with their branches?

Mr. MEYER. I do not know——

Mr. WINGO. Is not that so in Washington City now? Do they not propose to absolutely drive out of business a lot of small banks? They say they have too many banks here, and the larger banks intend to gobble up the small banks and make them branches.

Mr. MEYER. I have given you my opinion after a careful study of the problem. I feel that the larger banking resources which in my judgment would be made available to these smaller communities if a limited number of branches were permitted would be of great benefit to them.

Of course, some of the small banks might become the branches of the larger institutions and be glad of the opportunity. But, in any event, branch banking is being developed very rapidly in some places under State laws, and the authorization of a limited number of branches of national banks would, I believe, be desirable.

Mr. WINGO. Because a thing is thriving, that is no reason for extension.

Mr. MEYER. But it may now be done by a State bank.

Mr. WINGO. Its practice is no indication that it is a virtue.

Mr. MEYER. No.

Mr. WINGO. Do you not think that instead of our meeting a State evil we ought to try to check it?

Mr. MEYER. We can not control the action of the States, and the State governments are encouraging branch banks.

Mr. WINGO. Very well; if we authorize national banks to establish branch banks in every State in the Union, will we not compel the State bankers in every State that does not now permit branch banks to go to their legislature and say, "The Federal Government has given authority to national banks to establish branch banks"; making the same argument that is made here, namely, that because the States authorize the establishment of branch banks we should establish branch national banks?

Mr. MEYER. I am not arguing that as a reason for permitting national banks to establish two or three branches. I am simply saying that branch banking is growing regardless of the fact that we do not permit it in the national banking system. While I am heartily in favor of decentralization of banking in the big sense, I think you will agree with me that it may be carried too far. I

believe the smaller communities would be better served if the national banks were permitted to establish a limited number of branches. When I say the smaller communities I mean the farmers and stockmen, not the banking interests. I am discussing the matter from the standpoint of agriculture, not from the banking point of view. I am not at all interested in the extension of the branch banking privilege to the banks in the large cities.

I may add that when a national bank buys a State institution it is allowed to keep the branches of the State institution.

Mr. WINGO. You think that the establishment of branch banks is to the interest of agricultural communities?

Mr. MEYER. I do if they are limited in number and limited in the distance from the parent institution.

Mr. WINGO. Have you ever been associated with business and banking in small villages?

Mr. MEYER. No.

Mr. WINGO. Have you ever studied——

Mr. MEYER. Yes; I have studied the matter for a long time.

Mr. WINGO. Have you ever studied, from the comparative standpoint of the business done, what happened where you did have the branch bank system established in the smaller community—what effect it had?

Mr. MEYER. The kind of branch banking I am talking about—a limited number of branches within a limited radius—does not exist anywhere, so far as I know, so that that particular thing could not have been studied.

Mr. WINGO. You would be surprised, then, to know that it has been tried?

Mr. MEYER. Only in a very limited way I imagine. You say that you have it in your own country.

Mr. WINGO. Oh, you have it all over the West and the South. In an indirect way you have had branch banks in many places, and it has been very hard to get rid of them. This same argument was made. Men would go into the little local communities and say, "Let us just organize a little bank, and you take one or two shares. We want you to have an interest. We are directors in a large bank, and as individuals we will take the rest of the capital, and we will have the resources and you will have our bank back of you. This bank in the city or the larger community will be the correspondent, and will take care of your business." It has been a very bitter experience for many communities. I have investigated it in several States. They found it very bad, and they got rid of it as quickly as they could. I know of several of them in my district that have been either put out of business, or outsiders forced to sell their stock to local persons because the local people got rid of them as soon as they could, and they have gone back to the other system.

Mr. MEYER. I have merely expressed my views on the matter. I think it would be helpful.

I would also encourage the State banks to join the Federal reserve system by reducing the present capital stock limitation. I am not opposed to the State banking institutions. Many of them have been very serviceable to their communities and are very well managed; but there has been a great deal of bad management in the smaller banks. Some of the cross-roads towns in the Middle West have four banks, one on each corner, each with $5,000 or $10,000 capital, competing for business and then not doing it on a sound basis.

I do not know that particular system is going to cure the weakness of men, or their laziness in some cases, or their inefficiency or cupidity in other cases.

Mr. WINGO. The very illustration you use, with all fairness to you, illustrates the viewpoint of you gentlemen that study business. You have the same feeling about those little banks on the four corners; you do not regard that as banking at all, any more than John Wanamaker regards a peanut stand as commercial business.

Mr. MEYER. I think I have had more to do with small banks than any one else in the country, and we have shown our confidence in them by making loans to about 4,500 of them. I am not prejudiced against small banks, but, nevertheless, I see the need for larger facilities in many of the smaller communities, sometimes only for a short period and sometimes permanently. And it is my idea that larger resources can be made available to the smaller communities through branches of the larger national banks.

Mr. WINGO. That is quite a theory; but the fact remains that water will not run uphill; and you want to make water run uphill.

Mr. MEYER. No, I do not.

Mr. WINGO. Whenever you make a connection, it seeks the level of the central reservoir.

Mr. MEYER. That might be true if each branch was connected with a hundred others all over the State, but if it is kept local by restricting the number of branches and their distance from the parent institution I do not think the situation you have in mind will arise.

Mr. DUNBAR. Mr. Chairman, I want to say that that is a mistake; that water does run up hill. The Mississippi River is higher near its center than it is at its mouth.

Mr. WINGO. That is the best argument I have heard to-day in favor of branch banking. But the truth is that absentee banking is as bad as absentee landlordism for the American farmer. The banker is too far away.

Mr. DUNBAR. I am not making that as an argument, but there are different powers that control the flow of water. One is the force of gravity, and another is the centrifugal force of the rotation of the earth on its axis.

Mr. WINGO. I will refer you to Mr. Einstein.

Mr. DUNBAR. So that the water does run toward the equator as a rule, and it is due to the centrifugal force that draws the water up hill and draws it up to the equator.

The CHAIRMAN. Mr. Meyer, you have been very generous with us to-day, and we are very much obliged to you, sir.

(The report to the President, above referred to, is here printed in full, as follows:)

AGRICULTURAL AND LIVE STOCK CONDITIONS AND FINANCE.

APRIL 20, 1922.

MY DEAR MR. PRESIDENT: Pursuant to the suggestion contained in your letter of March 4 I have made a trip, covering more than 11,000 miles, through the country west of the Mississippi River, for the purpose of studying agricultural and live-stock conditions. My investigation included visits to Chicago, Des Moines, Omaha, Kansas City, Oklahoma City, Fort Worth, Dallas, Denver, Cheyenne, Albuquerque, Phoenix, Los Angeles, San Francisco, Salt Lake City, Boise, Portland, Seattle, Spokane, Helena, Fargo, and Minneapolis. I had the opportunity to confer not only with the members of 17 committees of the agricultural loan agencies of the War Finance Corporation in that territory, but also with other representative groups of business men and bankers and with representatives of farm organizations and cooperative marketing associations.

The people of the West, I found, attached great significance to the fact that you are following agricultural conditions with such sympathetic interest, and they were gratified that you had seen fit to request that I make a personal investigation of the situation and report to you.

NOTEWORTHY IMPROVEMENT IN AGRICULTURAL CONDITIONS.

My investigation fully confirmed the statements made in my letter to you of March 3 regarding the noteworthy improvement in agricultural conditions. The degree and the rate of improvement in the different sections of the West vary with the nature of the agricultural activities and the marketing season. The corn and hog raisers of the Middle West, for instance, are marketing their products and getting a fair return for them every day. This territory, therefore, is in the lead in the improvement. The sheep raisers are getting good prices for wool this spring, and fat lambs are in demand at satisfactory prices. Those engaged in the fattening of cattle in the Middle West have likewise done well during the past few months. The live-stock breeders also are better off, because of their increased ability to finance their business and because of the improved market at higher prices, actual and prospective, for young stock. The grain growers of the Northwest, on the other hand, have not made as much progress as yet, because a large part of last year's wheat crop was marketed at low prices. Further improvement will come this year if a fair crop grown at a lower cost than during recent years can be sold at prices remunerative to the grower, which will be the case if the present good prospects continue.

Moisture conditions, which are so important at this time of the year, were reported to be highly satisfactory. So far as I was able to determine, there is no extended area which has not had sufficient moisture, and this is true even in those sections which have suffered frequently from drought. The outlook at the present time, therefore, appears to be one of unusual promise for the coming season.

Credit conditions everywhere are improving. The work of the War Finance Corporation in enabling the smaller country banks to carry their farmer customers for a longer period was reported to be a vital factor in restoring confidence and in stopping the forced liquidation that prevailed at the time of the passage of the agricultural credits act. It was reported also that the new loans made by banks which borrowed from the corporation found their way to points where relief was most urgently needed. Funds are accumulating in the western banking centers, and these centers appear in general to be adequately taking care of the needs of the farmers in connection with their planting operations. There is a noteworthy increase in the demand for farm mortgages on the part of private investors, savings banks, life insurance companies, and similar investment institutions. This, to a considerable extent, is making possible the liquidation of indebtedness heretofore held as frozen loans by local banks.

JOINT-STOCK LAND BANKS.

In some districts the question of land loans is to-day of prime importance, because adequate funds for such loans have not been obtainable on reasonable terms during the period of overexpansion of credit and high interest rates. Within the past six months the Federal land banks have increased the scale of their operations by about 50 per cent. These banks are now making new loans aggregating approximately $18,000,000 a month, as against $12,000,000 a month last fall. But in certain parts of the West the need for mortgage money is not being adequately met by the Federal farm loan system because of the limitation which prevents a Federal land bank from lending more than $10,000 to any one borrower. I have in mind particularly the large western grain farmers, who cultivate extensive acreages, and also the stockmen, whose ranches to be economical producing units must be conducted on a fairly large scale. To meet this situation, I have suggested the formation in Montana, Idaho, Colorado, and other western States of joint-stock land banks, which are authorized to make loans up to a maximum of from $37,500 to $50,000, depending on the amount of the capital of the bank. The stock subscription for a joint-stock land bank in Wyoming has already been completed; plans for the organization of such a bank in Oregon to meet the needs of the eastern Oregon grain growers are under active consideration; and other similar institutions are in process of formation in other sections of the country. The sale of the bonds of these banks naturally will depend in each case upon the standing of the management and its reputation for proper business care and judgment.

The joint-stock land banks constitute an agency of peculiar value under present conditions—an agency which has been authorized since 1916, but which has not functioned on an extensive scale up to this time. With proper supervision, I believe that these institutions will perform a most useful service, especially in the territory where farming is conducted in large units, and also in the live-stock country, where ranch land values, even on a low valuation per acre, necessarily run into substantial amounts.

To sum up, I found on my trip through the West that the servere and, indeed, unprecedented depression which dealt such a hard blow to the agricultural interests is in some sections of the country already a thing of the past; that in other sections it is rapidly passing; and that everywhere hope and confidence are taking the place of the despair which six months ago was so widely prevalent.

EMERGENCY LOANS OF WAR FINANCE CORPORATION.

You are already familiar with the measures which the War Finance Corporation, under congressional authorization, took to meet the emergency. The corporation in the past six months has authorized more than 6,500 loans, aggregating approximately $152,000,000, to banks in the agricultural sections of the country. It has approved loans totaling more than $73,000,000 to live stock loan companies and banks upon the security of live stock. It has approved loans exceeding $63,000,000 to cooperative marketing associations. Including advances to finance agricultural and other exports, loans aggregating more than $333,000,000 have been authorized by the corporation since the spring of 1921. Clearly, many of these loans were made necessary by the unique conditions produced by the collapse of a war-time inflation. These conditions must be regarded as exceptional and their recurrence need not be anticipated.

The experience of the past year has, however, revealed certain defects in our agricultural credit system which are of a more fundamental nature and which can not be remedied by temporary measures. In considering whether and to what extent the powers of the War Finance Corporation should be extended beyond their present limit of July 1, 1922, and what, if any, new legislation may be required, it is important to distinguish clearly those features of the recent agricultural crisis due to a temporary emergency and yielding to temporary measures of relief, and those revealing defects that require permanent remedies.

REDISCOUNTS FOR COUNTRY BANKS.

Most of the banks to which loans have been made by the corporation are State organizations and are not members of the Federal reserve system; and the capital and resources of a considerable number are so inadequate that they are unable to perform a sound and useful banking function. Some of these smaller institutions have not been conducted conservatively; and, in a few States, there has been evidence of poor supervision by the State banking departments. Promotions of unsound character have had much to do with the troubles of some of them—promotions which amounted, in many cases, to actual swindles. Land speculation, too, has played its part and has been responsible, in same sections, for much of the distress of the farmer and of the banks in the agricultural districts. But the difficulites due to poor banking, speculation, and other excesses that usually accompany a period of inflation, such as prevailed during the war period and immediately thereafter, were not confined to the agricultural districts; they were characteristic of the financial, industrial, and commercial situation in the entire country.

An adequate rediscount facility for country banks is a real need, although the problem is being magnified at the present time. It must be understood that most of the banking of the country is done, always has been done, and always will be done with the funds which constitute the banking capital, surplus, and deposits of the financial institutions of the country, supplemented by the flow of investment funds continuously available. It may be safely stated that the rediscounts furnished to country banks by city banks correspondents are very much larger in volume than those furnished by the entire Federal reserve system.

The market collapse of 1920-21 left the country banks in an over-extended financial condition. At the beginning of that period, the bank deposits were large and the loans in proportion. As markets and prices collapsed, deposits were greatly reduced without a proportionate reduction in loans. The present movement is toward an increase in deposits in many of the agricultural sections and a reduction in loans. When loans have been reduced and deposits have increased, the need of the small country banks for rediscount facilities, over and above those provided by their city correspondents, will have been materially curtailed and perhaps largely eliminated. In other words, the need for this part of the work of the War Finance Corporation is largely temporary.

There are, however, certain steps that can and should be taken to improve the banking situation in the agricultural districts, and I suggest, for your consideration, the following:

ENCOURAGE STATE BANKS TO JOIN FEDERAL RESERVE SYSTEM.

1. That the State nonmember banks having adequate capital and proper management be encouraged to enter the Federal reserve system (only 1,595 out of 11,235 State banks and trust companies eligible for membership have joined so far); and, furthermore, that the minimum capital required for admission to the system be reduced—the admission, in such cases, to be conditioned upon an undertaking to increase the capital to the present minimum of $25,000 within a definite time. The fact that a very large percentage of the applicants for the emergency assistance of the War Finance Corporation were nonmember State banks indicates that the members of the Federal reserve system have had an advantage in the situation.

AUTHORIZE LIMITED BRANCH BANKING BY NATIONAL BANKS.

2. That the National Banking Act be amended to permit a limited amount of branch banking. Many of the small, inadequately capitalized country banks are located in towns which need some banking facilities but whose business does not attain a sufficient volume to justify the maintenance of an independent bank. In my opinion, it would assist in the solution of the problem to authorize national banks, operating in adjacent territory and familiar with local conditions, to establish branches, limiting the number of branches for any one national bank and restricting the radius of action with relation to the main institution.

The dangers of overcentralization in banking are not to be ignored. The War Finance Corporation is a form of centralized banking power in its most extreme application; and, while such a concentration of power and resources was suitable for the grave emergency that confronted the agricultural and banking interests of the country last autumn, it is, in my opinion, entirely unsuited to the permanent banking structure of the nation. Centralization of banking resources might indeed result if any national bank were permitted to establish an unlimited number of branches; but the suggestion I have made contemplates only the establishment of a limited number of branches by any one bank and within a limited radius of the parent institution. This would provide the smaller towns in the agricultural districts with branches of well managed and adequately capitalized national banks and would, in my judgment, greatly improve the banking situation in those districts.

There is another feature of the matter which should be borne in mind. Excessive interest rates complained of in the country districts appear to be charged largely by the very small banks. High rates are more or less a natural consequence of the large overhead expense compared with the small volume of business which they are able to do, and even then such banks are frequently unable to prosper. It seems to me, therefore, that a restricted amount of branch banking not only would furnish better financial facilities to the farming districts but would also tend materially to reduce interest rates.

NEW LIVE-STOCK LOAN COMPANIES.

An important result of the work of the War Finance Corporation has been the formation of a number of new live-stock loan companies, each with substantial capital subscribed by local business men, bankers, and stockmen. The capital of these new companies, all of which has been subscribed during the past six months, exceeds in the aggregate the total amount of capital invested in all the live-stock loan companies that existed previous to October 1, 1921. And whereas most of the capital of the former companies was concentrated in a few places—principally in Chicago, Kansas City, and Omaha—the new companies are largely owned and managed locally in the various live-stock growing States. These institutions will not only serve present emergency needs but they should add to the permanent structure of live-stock financing for all time. Through them, as well as through other financing organizations, the War Finance Corporation has made loans aggregating approximately $73,000,000 for live-stock purposes.

In referring particularly to these new companies, there is no intention to minimize the importance of the older companies. They have had a difficult time during the past two years and their stockholders have furnished millions of dollars to maintain their solvency and stability. By so doing, they have prevented disaster to the live-stock industry and to the banking institutions interested in it.

LIVE-STOCK INDUSTRY NOT PROPERLY FINANCED.

The live-stock industry constitutes one of our great basic activities and involves a turnover of an enormous aggregate amount, but, in my opinion, it has never been properly financed from two points of view.

In the first place, the financing has not been timed to the requirements of the turnover. The business of fattening live stock, which involves a turnover of six months, more or less, can easily be taken care of by existing machinery. But the longer time requirements of the live-stock breeding industry, involving a turnover of about three years, have been financed through loan companies, which, selling their paper for a maximum of six months, have been compelled to limit their loans to a similar period. A six months' loan to the owner of a breeding herd, with no assurance of extension, is a hardship to the industry and can not fail to exercise a discouraging influence.

In the second place, there is need for a radical revision in the methods of handling the supervision and inspection of live-stock loans. The ability of the

industry to obtain adequate financing at reasonable rates inevitably must depend upon the elimination of some of the unnecessary hazards which have characterized the conduct of the business in the past.

FURTHER MACHINERY NEEDED FOR LIVE-STOCK FINANCING.

After a careful study of the whole problem, in the light of the experience of the War Finance Corporation, I recommend the enactment of legislation specifically authorizing the organization of institutions to rediscount the paper of live-stock loan companies. These institutions, of course should be related to the existing financial structure and made an adjunct thereto; and, as a condition precedent to their functioning, a system for the more adequate supervision and inspection of the live stock which furnishes security for the paper should be devised and put into operation. The importance of this matter in any plan for live-stock financing can not be over-emphasized.

With such institutions and with a satisfactory system of inspection and supervision, I feel that capital in adequate amounts and upon reasonable terms may be looked for by the stockmen of our vast western country. The new live-stock loan companies may constitute the nucleus upon which the proposed rediscounting organizations can be developed on a sound basis and in a way that would reasonably meet the financial needs of the live-stock industry.

COOPERATIVE MARKETING ORGANIZATIONS.

While the War Finance Corporation during the past year has entered into agreements to lend approximately $63,000,000 to cooperative marketing associations in all parts of the the country, to assist them in the orderly marketing of their products, in most cases only a small part of the credit authorized has actually been used, because the local banks have been able to take care of the needs to a greater extent than had been anticipated. This indicates that the cooperative marketing associations, when they are properly organized and soundly managed, are able, for the most part, to obtain the necessary funds from local banking sources. But it is generally agreed that a good deal of the willingness of the banks to finance the cooperatives in their sections has been based upon the ability of the cooperatives to obtain funds from the War Finance Corporation. This has involved, in part, the element of confidence and, in part, the funds themselves; for it is obviously easier for a local bank to furnish funds to a cooperative marketing organization when it knows that the funds can be borrowed from another source and repaid to the bank in case of need. There is, therefore, a feeling among the managers of the marketing cooperatives, and also to a great extent among their banks, that there should be a continuation of the assurance of a market for their paper outside of the local banks. It is recognized that, with improving financial and agricultural conditions, it will be easier for them to obtain funds during the coming season, but, on the other hand, their operations perhaps will be conducted on a more extended scale and, therefore, the aggregate of funds required will be correspondingly greater.

You desired me especially to report upon these organizations. While in the West, I had the opportunity of meeting the directors and managers of many of them, and in some cases of visiting their working headquarters and their warehouses. California was the first State to take up cooperative marketing on a large scale in this country and there it has been carried on in its most highly developed form. In San Francisco I met the representatives of 26 of the leading cooperative marketing associations of the State and was enabled to get the benefit of their experience and views. These California associations, for the most part, are so well established that their banking credit is equal to that of the best privately owned and managed corporations, and although they market products aggregating in value $250,000,000 annually, they have had occasion to avail themselves of the funds of the War Finance Corporation to the extent of only $1,500,000 during the past season. Their operations were financed almost entirely through their usual banking connections.

The more recently organized cooperative marketing associations in Oklahoma, Mississippi, Arkansas, Texas, Arizona, and in the Northwestern States, while not so firmly established as the California associations, appear to be organized upon sound principles and to be properly and capably managed.

MACHINERY SHOULD BE PROVIDED FOR FINANCING ORDERLY MARKETING.

Prior to the war the distribution of our agricultural products, in so far as our export trade was concerned, was financed in considerable part by European capital. But fluctuating exchange, added to the fact that European countries are no longer on a gold basis, or even on a stabilized exchange basis, has prevented the continuation of this practice. We must, therefore, adjust our own financing machinery to meet the new conditions.

Our financial system has apparently been based on the expectation that the farmer would sell his crops as soon as they matured. And the immediate sale of the season's product by the farmer contemplated its being carried by middlemen until distributed through manufacturers or retailers. As has been stated so often, the farmer's crops harvested within a short period and consumed throughout the year. The processes of financing should adjust themselves to the natural processes of production and distribution rather than vice versa. We have reached the point where the right of the cooperative marketing organizations to carry the products of their members for orderly marketing until the consumer is ready to take them must be recognized and the necessary financing machinery provided.

I therefore recommend that the need for the orderly marketing of our agricultural products in a more gradual way and over a longer period of time be frankly recognized; that existing banking laws and regulations be adjusted with this end in view; and that a rediscount facility be established to make it possible at all times for cooperative marketing organizations to obtain adequate funds for their operations. I recommend also that the powers of the Federal reserve banks be extended to include the purchase in the open markets of eligible paper secured by nonperishable agricultural commodities properly warehoused.

Perhaps I should add here that the need of additional financing not only for the cooperative marketing organizations but for the live-stock industry as well was indicated in the report to Congress by the Joint Commission of Agricultural Inquiry.

SIX MONTHS' EXTENSION OF WAR FINANCE CORPORATION'S POWERS.

In conclusion, I suggest that, pending the enactment of legislation along the lines I have indicated and the establishment of the necessary machinery for its administration, the period during which the War Finance Corporation may make loans be extended until January 1, 1923, and that the corporation be authorized up to that date (1) to make advances upon adequate security to cooperative marketing organizations and live-stock loan companies where it appears that they are unable to obtain adequate financing at reasonable rates through other channels; and (2) to make advances to banking institutions on agricultural and live-stock paper in exceptional cases and where it appears that the public interests will be served by such action.

In submitting these observations and recommendatiaons, I do so in the hope that they may be of some value in considering the question of how best to maintain our agriculture upon a sound basis. This problem lies at the very foundation of our national economic and social policies and every intelligent citizen must have a deep interest in its solution.

Respectfully yours,

EUGENE MEYER, JR.,
Managing Director War Finance Corporation.

The PRESIDENT,
The White House.

(Thereupon the committee proceeded to other business.)

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Thursday, May 4, 1922.

The committee this day met, Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. Gentlemen of the committee, this is a continuation of the hearing in connection with H. R. 11517. We have here this morning the Secretary of the Treasury, Mr. Mellon.

Mr. Sumners, of Texas, is also present. We of the House have long since come to recognize him as an authority on rural credits and the economic prob-

lems of agriculture generally—not a theorist but a safe man, whose conclusions are based upon knowledge and sound judgment. He had much to do last year with bringing about the emergency relief measures for the cotton and live-stock interests, and I am sure it would be enlightening to get his impressions on this subject.

STATEMENT OF HON. HATTON W. SUMNERS, A MEMBER OF CONGRESS FROM TEXAS.

Mr. SUMNERS. Mr. Chairman, I thank you for this opportunity.

It seems to me the best argument in support of what is suggested here is to be found in our recent experience, coupled with what everyone must realize as to the uncertainty of world conditions which now obtain.

We are hopeful, and not without grounds, but it is a fact that the whole world is yet far from normal politically, economically, morally, and mentally. How long it will be in returning to a normal condition or what will happen in the meantime the wisest man can only guess, and the fool's guess may be as good as that of the wisest. The period of the French Revolution is perhaps the nearest, but no exact counterpart of these times is to be found in the history of the world. In such times it is clearly the duty of those who are in positions of responsibility, while they can act with deliberation and mature judgment, to provide in advance, as far as they reasonably can, against the possible consequences of what may occur. Certainly the opportunity to use an instrumentality of proven efficiency, such as the War Finance Corporation, ought not to be destroyed which no one can now know how long its use will be required or when a greater need may develop. Agriculture is the weak spot among the interrelated industries which make up our economic structure.

We all know that the first manifestation of a giving away in our economic structure under the pressure exerted upon it as an aftermath of the war was at the point held by agriculture. That was inevitable, because it was the weakest point—the danger point which we had long ignored. When the crisis came we were unable to bring up the reserve resources of the country to strengthen this point of greatest weakness.

Certainly that great educator, hard experience, has taught us a lesson which we must not now ignore; nor must we forget the one thing which, though late in its application, did as much as anything else to strengthen the heart and the hand of those who farm and indirectly that of the whole country.

Congress at that time not only provided a possible credit of $1,000,000,000, to be advanced through the War Finance Corporation to facilitate exports, but by common consent agreed that it be used entirely to facilitate agricultural exports. That act was a definite evidence that the country at large had come to understand the economic relationship between agriculture and other businesses in this country, and that agriculture's financial needs are peculiar to itself; and, further, that the country was willing that these needs be met. The psychological effect of that was as great in its consequences as the material aid given. We, as a people, seemed at last to realize that we must make agriculture prosperous if the country at large is to have any general prosperity. We must not reverse that attitude or destroy at this time the evidence of its existence. It is well to remember also that after that fund had been provided there was much delay in making it available. It was found in many instances of the most urgent need that there was no practical way to get this money back to the source of the trouble. Many of the banks were extended to the limit. Some were unwilling or, rather, afraid, and many were unable to increase their rediscounts. We were much in the same situation as though we had had well-filled water reservoirs but with the conduits frozen solidly and no route around these conduits.

As bearing upon this matter, may I recount briefly a part of the history of that experience with which my own activities gave me some familiarity?

When the Joint Commission of Agricultural Inquiry was created, it was clear that the commercial banks could not be depended upon to take care of the situation, and that unless every possible support was provided for agriculture before the coming harvest the whole economic structure of agriculture, particularly of the South, would utterly collapse, and business and banking and labor would go down in the crash. At the first meeting of that joint commission the paramount and urgent necessity of trying to avert the impending crisis was presented.

A cotton subcommittee, of which I was made chairman, was created, to deal with the cotton phase of the emergency. I left Washington immediately for Georgia and the Carolinas, in which States all branches of the cotton industry from the field to the finished garments could be best studied. This is the condition which then existed there: Most of the banks were extended to the limit.

The few banks with unexhausted credit resources were afraid to use them. A large percentage of merchants had reached the point where they could neither get nor extend further credit, and the farmers were, as a class, "broke," and the worst feature was that the morale of the people was near the breaking point. I talked with many bankers. They all agreed that there was an imperative need for some route around the distressed banks as well as of direct relief from the frozen condition of their own creditors. There was in the country considerable cotton of the preceding crop unsold, upon much of which loans had been made in excess of its market value at that time. The cotton mills were either closed down or running on very short time. I did not interview a single banker or merchant who did not tell me that it was of no use to try to carry the situation any longer and that it was his purpose to force the sale of carried over cotton and the new crop in the fall, as harvested, regardless of price, get what he could, go "broke" if he had to, and let it go at that.

At that time most of the eastern mills were closed, with no immediate prospect of revival; cotton was going down all the time, and even those who were able to buy did not want to purchase either cotton or cloth on a declining market. Europe, which under ordinary conditions had taken over half of our cotton, was out of the market in so far as quantity purchases of cotton with its own money was concerned. Prior to my departure for the South a conference of eastern spinners had been called here in Washington to see if they could not be induced to make sufficient purchases of cotton to stop the decline of prices before the new crop came on the market. They gave it as their opinion that under the conditions, cotton, notwithstanding its probable low yield, would go to 8 cents per pound. There was at time every prospect that the new crop, however small, would come on that sort of a market as fast as harvested, under the pressure of forced sale, bringing with it the entire American carry over, which was then the largest in our history. With such economic pressure as this, with a market like this, and all power to resist exhausted, there was but one possible escape.

A new national attitude toward cotton had to be created and the fact that it had been created had to be made manifest to the world. While the South is grateful to the rest of the Nation, and I am grateful beyond measure to my colleagues from other sections of the country, I would be guilty of hypocrisy if I pretended that this support was not largely due to an acceptance of the argument advanced that if the debt paying and the purchasing power of the South could be revived, we could hope to open up the mule markets of Missouri and put the factories to work in the North and East, and that cotton held the key to the situation.

I have not always agreed with the policy of the Federal reserve banks, but it is a fact that in this emergency a conference was called by the Federal Reserve Board of the governors of the five Federal reserve banks serving southern territory, and the Governor of the New York Bank, and the Managing Director of the War Finance Corporation, which conference I was invited to attend and participate in the initial meeting. As a result of this conference, it was agreed that the financial and moral support of these banks in a more direct and positive way and under a liberalized policy would be given to the cotton market. Mr. Meyer, on behalf of the War Finance Corporation, agreed, in addition, to making available all of the billion dollars of the authorized credit of the War Finance Corporation necessary to supplement these banks in supporting a policy of orderly marketing of cotton, and to advance this money when necessary to cooperative marketing associations. That later gave a route around commercial banks either unable or unwilling fully to provide the necessary credit and created an additional facility to help relieve many banks and restore them to normal functioning.

This arrangement not only made possible a reversal of the psychology of the situation but presented a complete plan and a program around which organized teamwork could be developed. It took it all to stop the decline and to give the cotton market a chance to "dig in" before the pressure of the new crop came on the market, and gave the fact of a small crop a chance to operate

on sale price—nothing could have saved the situation if we had not had a small crop. The size of the crop was not permitted, however, to have full effect on price because demand for use was never permitted to catch up with the volume of cotton being offered to the highest bidder.

The credit extended by the War Finance Corporation directly to cooperative selling associations, while relatively small in quantity, had more to do than any other one thing toward reversing the psychological attitude toward cotton in this country and abroad.

It is also true that this route around the unable and also the afraid or unwilling banks did much to thaw out frozen credits and frozen attitude and put the local banking machinery into necessary functioning. I am not guessing about this.

I made a second trip into the cotton States after these financial provisions had been made, the purpose at that time being to help bring the local bankers, merchants, and farmers into cooperative utilization of the financial support which had been provided, to the end that gradual and orderly marketing of the crop be not prevented by too great local pressure to liquidate. I found that the thing which helped most in changing the mental attitude, in restoring the fighting, the stand-together spirit of the people, was the assurance that the banks could have access to a new source of emergency credit, and more important still, that if the banks could not or would not supply the needed credit the farmers could organize themselves into cooperative marketing associations and get credit by a route around these banks.

As I have stated we do not know what is going to happen. All we know is that we do not know. In such times wise men take every precaution. The people have learned or rather they are learning how to use the sort of credit which is being extended through the War Finance Corporation. The commercial banks are learning that that character of credit is a valuable supplement to their business and a protection as well. The year's extension proposed here will not only make sure the opportunity to use this facility during that time, but will give use a longer period in which to construct a more permanent and a better adapted machinery than the War Finance Corporation is for extending long-time agricultural credit.

This is not exactly the sort of long-time agricultural credit which we need, but in many respects it is similar to what we need. In my judgment, this credit-extending agency ought not to be discontinued, and the intermediary agencies, which have been organized for the distribution of that credit, ought not to be put out of business but rather that this temporary agency ought to be merged into a permanent agency more nearly adapted to ordinary conditions capable of caring for long-time credit needs during ordinary conditions and of meeting emergency needs should they develop. Certainly to fail to extend the life of the War Finance Corporation in the face of present conditions and of possible necessities would be a folly which I am certain we will not be guilty of. We may not need it, but I had rather have it and not need it than to need it and not have it.

What has been said with regard to the conditions which I found in the cotton sections, generally speaking, were found also in the live-stock section of Texas last fall. In some important particulars the live-stock situation was more difficult to dealt with and, if possible, more tragic. It was in September, accompanied by the assistant secretary of the Southwestern Cattle Raisers' Association, that I made an automobile trip of about 1,500 miles into the cattle and sheep sections of Texas. The part of Texas which we visited is peculiarly a breeding section. The banks there, as a rule, are of small capitalization. We found the ranches being stripped of cows, calves, and sheep. They were being forced onto the slaughter market. In many sections the local banks could no longer supply the money to pay the hire of the cowboys and the grocery bills of the ranchers. The larger cattle loan companies, many of which were demanding immediate liquidation on a glutted market, would not allow a retention of any part of the sale receipts for operating expenses. That thing was happening as violative of every public interest and every principle of economic justice, as would occur if factories, which are required to meet the necessities of the people and the operation of which are necessary to give the owners a chance to pay their debts, were to be stripped of their machinery and that machinery sold at junk prices. In all my life I have never seen a condition which appeals like that condition out there. Those big strong men of the West, who had spent their lives amid the hardships of pioneer conditions, were being ground to pieces because no financial machinery had been

provided which was adapted to meet the peculiar necessities of their business. They have organized cattle loan associations which are functioning at least with some benefit between the War Finance Corporation and the ranchmen.

I favored a different plan for that emergency, but agreement to that plan could not be had. Clearly, gentlemen, we must not throw these men and their business back upon the credit-extending agencies which so utterly and so disastrously failed them last fall. We hope no such condition will recur, but nobody can know. No human eye can see through this curtain of battle smoke which still hangs over the world, and we can not afford to take the chance.

Again, I thank you for the opportunity to appear in behalf of this measure.

The CHAIRMAN. Mr. Mellon, we would like to know from you whether or not you approve of this bill, which provides for the extension of the activities of the War Finance Corporation for a period of one year from June 30, 1922, and will appreciate any suggestions you care to make in connection with it.

STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY.

Secretary MELLON. I may say that I approve the bill. From what I know of the activities of the War Finance Corporation and the work lately I should think that they could, perhaps, accomplish everything in an extension of six months. The applications for loans are falling off and the amount of new business is very much smaller; on the other hand, possibly there may be a reason for an extension of one year; it is just a question of how soon the situation may be sufficiently cleared up. I know that the applications and the loans approved are not now over 25 per cent—and not that—of what they were in January, February, and March. There is a decreasing demand, which indicates that the necessities have been taken care of to that extent. Still I do not see any special objection, however, to a year's extension.

The CHAIRMAN. You consider that the general financial situation has sufficiently improved so that relief can be afforded through the regular channels?

Secretary MELLON. Yes.

The general stuation among the banks is improving in all the districts. There are some in the Northwest and some other sections where you can not say the situation is at all normal yet, but the tendency is in the direction of improvement and there has been a very great improvement in the situation generally.

The CHAIRMAN. Are there any members of the committee who would like to have any further information from the Secretary?

Secretary MELLON. I might add that the War Finance Corporation has gotten to the place now where it is not taking money from the Treasury.

The CHAIRMAN. We understood from Mr. Meyer yesterday that he had been working entirely within the capital which was allowed to the War Finance Corporation, and he had not issued any debentures or notes; that he had been able to finance the requirements of the corporation entirely within the capital provided.

Secretary MELLON. Yes; the money being received from the payment of notes and loans that have been made is now taking care of the new outgo completely.

The CHAIRMAN. Probably some of the demands have been relieved because of the flotation of the various loans through the farm-loan system—that is, the needs of the local communities.

Secretary MELLON. There may be some relief in that way, but those loans are rather of a different nature, being loans on farm property; at the same time they have undoubtedly been of some assistance.

The CHAIRMAN. It takes money into the locality.

Secretary MELLON. Yes; it takes money into the locality, and wherever it goes it has its general benefit.

The CHAIRMAN. Is not the Treasury now holding some $183,000,000 of those farm-loan bonds?

Secretary MELLON. Yes; and there is a good market for those bonds—I mean the general bond market is very good. We have discussed the question of whether it might be well to commence selling enough bonds to reimburse the Treasury to a certain extent, but it was thought that for the present, or, at any rate, for the next issue that was going to be put out, nothing should be done unless the Federal land banks seem to have a surplus of money. But we have not made any special provisions yet. As long as the money is

needed by the farm-loan system for making these loans it did not seem desirable to require the payments.

The CHAIRMAN. In other words, your thought was to supply the farmers with ready cash rather than to relieve the Treasury at this time?

Secretary MELLON. Yes, sir.

The CHAIRMAN. The throwing of those Treasury bonds on the market might interfere with the sale and consummation of new loans to farmers who were in need of assistance?

Secretary MELLON. Exactly, although that would depend on the market and the bond market has been getting better all the time. We are getting to a place where it all can be liquidated.

The CHAIRMAN. In some of the recent hearings before the committee there was an intimation, in regard to the flotation of farm loan bonds, that they were not going out as rapidly as they should.

Secretary MELLON. You mean that they were not selling as rapidly as they should?

The CHAIRMAN. That the offerings were not made as frequently or in as large amounts as the market perhaps would consume.

Secretary MELLON. That is limited by their having all of the money that they can handle. The machinery for making the loans is the measure. For instance, the next issue contemplated is $75,000,000; now $100,000,000 might be sold, for the bankers could probably handle the $100,000,000 about the same as $75,000,000. But you see there are certain requirements that have to be met for closing the loans which form the basis for securing these bonds, and you can not do that any more rapidly, taking the extent of the system as it is now, than is being done. We would not gain anything by selling more bonds to-day at all, because they could not put the money out any faster.

The CHAIRMAN. There are reports from some sections of the country that applications are piled up with the local banks and they are not able to handle them.

Secretary MELLON. That is true to some extent. I know there were one or two districts that had some such accumulation, but they were doing everything they could there and were going to clear it up; taking it altogether they could not use any larger amount of money, and the amount loaned every week by the system has very greatly increased, you know. In the last year it has trebled. They are loaning three times as much as they were.

The CHAIRMAN. Yes; I understand that. Now, Mr. Mellon, Mr. Meyer in a very interesting statement to the committee yesterday suggested as a possible relief that we should enact some system, or provide for government supervision over a system, of financing cattle paper. He suggested that this department be made an adjunct of the Federal farm loan system and that these companies, cattle financing companies, would be organized along the same lines as the joint stock land banks; that is, stock would be subscribed and owned by the private individuals; that he felt that if that situation were taken care of, the financing of cattle paper over a period of from one to two or three years would give great relief to the rural districts and would probably obviate the necessity for the continuance of a corporation such as the War Finance Corporation; that through financing the cattle paper it would make available for the farmers also funds through the commercial banking system to finance cotton and wheat and the annual movement of crops.

Would you think such a plan as that might be worked out to advantage?

Secretary MELLON. Yes; I think there is really occasion for some plan of that kind. The live-stock situation is the only one where there does seem to be an inadequate provision in our banking system, and a plan such as you speak of—it could be all taken care of in the farm loan system—would provide what is needed in that direction. I think the committee which made the investigation—the Anderson committee—went into that question and had a plan on somewhat similar lines. Something of that sort is desirable.

The CHAIRMAN. If the Secretary has no further statement to make on the bill, do any members of the committee wish to ask any questions?

Mr. STEAGALL. I would like to ask one or two questions, Mr. Chairman.

Mr. Secretary, if I understand you, it is not contemplated now that the Treasury will offer any of its farm loan bonds any time soon in competition with the bonds put out regularly by the bureau?

Secretary MELLON. We do not have any immediate plan. The Treasury would not in any event offer them. I think the process would be that the Farm Loan Board would sell additional bonds and redeem from the Treasury.

Mr. STEAGALL. In other words, the move would come from them as matters now stand?

Secretary MELLON. Yes; but the bonds that are in contemplation now—that is, to be issued—are not for that purpose—any of them; they are to be used for making loans.

Mr. STEAGALL. It is a fact, is it not, Mr. Secretary, that the demands for loans upon the farm loan banks are far in excess of the ability of the banks up to this time to meet those demands? Is not that true?

Secretary MELLON. That is true, I think, in a very large part of the territory.

Mr. STEAGALL. There is, however, a gradual increase in the amount of loans being made by the various land banks?

Secretary MELLON. Yes.

Mr. STEAGALL. And so far as we can tell, that increase is going on right now, is it not?

Secretary MELLON. It is going on right now.

Mr. STEAGALL. Well, you do not mean to say, do you, Mr. Secretary, that the farm loan banks can not loan any more money because of lack of clerical force or machinery with which to do the business, do you?

Secretary MELLON. Well, it is not exactly a question of clerical force, but it takes a certain amount of time to investigate applications and close loans.

Mr. STEAGALL. What part of the machinery of the land banks is it that is not sufficiently organized—that is not organized with sufficient force to increase the business commensurate with the demand?

Secretary MELLON. They have increased their forces, and they have increased their output. Of course, one thing that kept that increase from being greater—and I think it will be greater now, currently, than it was a month or two or three ago—was that in the wintertime in a good many of the districts in the Northwest the ground is all covered with snow. In all of those cases they must make a personal inspection of the land, and they could not do very much in that season.

Mr. STEAGALL. If it is due to the snow and bad weather of winter that could not obtain for the next few months.

Secretary MELLON. No; I say that the situation is going to improve; that there is going to be a greater amount of loans made, because we have got into a season when they can be made. But I know in several of the districts where there was an accumulation of the demand for money and I made some inquiry about it. In those particular districts it was on account of the rigors of the winter and the bad weather.

Mr. STEAGALL. Well, the loans are being restricted—I will not say "restricted"; I will withdraw that word, but the loans are limited in extent in the South, where those conditions do not prevail, just the same as elsewhere, are they not?

Secretary MELLON. Yes; but I think they are going on more freely in the South now.

Mr. STEAGALL. Yes; they are going on some.

It is a fact that the appraisers in many sections are on a per diem basis and are only working a small portion of their time, is it not?

Secretary MELLON. I do not know.

The CHAIRMAN. That is the way the appraisers work, on a per diem.

Mr. STEAGALL. I understand. I am not only asking if it is not true that they work on a per diem, but I want to ask him also if it is not true that they only work a very small portion of their time?

Secretary MELLON. I do not know what the proportion of time may be.

Mr. STEAGALL. As a matter of fact that is true, unless it has changed in the last few weeks, which I do not apprehend is the case.

Secretary MELLON. But if you take it over the year, as compared with any system of loaning on land, which would be similar to what building and loan associations do in cities or what banks do, for the farm loan banks to increase the business, to treble it within a year, to treble the actual loans and output, shows a good bit of progress. They have been increasing their output very much, and that is still going on.

The CHAIRMAN. As I understand it, Mr. Mellon, there has been approximately $300,000,000 loaned through the Federal farm loan system in the past six months; I think $40,000,000 at one time, $6,000,000 at another, $75,000,000 at another, and this last $75,000,000 now.

Secretary MELLON. Not quite that much, but since the 1st of January there has been one issue of $75,000,000 sold, and another issue of $75,000,000 which is practically consummated. That shows that they are going on pretty actively.

Mr. BLACK. Mr. Mellon, the last sale of bonds, did it go very readily—the farm loan bonds?

Secretary MELLON. It was sold quite readily; within two weeks, I think.

Mr. BLACK. Have they all been sold?

Secretary MELLON. The bonds were all sold; yes.

Mr. BLACK. That was $75,000,000, wasn't it?

Secretary MELLON. Yes.

Mr. BLACK. Now the loans that are made for the War Finance Corporation, has it been your experience that they materially relieve what is known as the "frozen loan" condition in some of the banks and in that way enable those banks to care for the local situation?

Secretary MELLON. Oh, yes; you see a very large proportion of the loans of the War Finance Corporation are made directly to the banks, to those small banks scattered all through the western districts.

Mr. BLACK. And in that way they have materially improved the liquid condition of the banks.

Secretary MELLON. Yes, sir.

Mr. STEAGALL. Mr. Secretary, in view of the fact that the machinery of the War Finance Corporation will still have to be maintained, do you not think that it would be better, even though the loans might gradually decrease to a very small amount—do you not think it would be better to let the power to make loans or authority to make loans continue for a year rather than six months?

Secretary MELLON. It will do no harm.

Mr. STEAGALL. The very fact that that business is decreasing, automatically removes whatever harm—if it could be construed as harm—there could be in the matter.

The CHAIRMAN. You mean by that, that there is a psychology there that inspires confidence?

Mr. STEAGALL. That is the point I am getting at. The fact that they are not making loans in large amounts removes in part any objection that anybody might have on account of a drain on the Treasury.

Secretary MELLON. Yes.

Mr. STEAGALL. And it still affords the same psychological benefits to be derived from the proposition, and in view of the fact that the machinery has got to be kept up for other purposes, it seems to me it would be the part of prudence and wisdom to continue that authority for 12 months rather than 6. I was hoping that view of the matter would meet your approval.

Secretary MELLON. That will give more confidence to these communities, these agricultural communities, etc., although I do not think it is really necessary. I do not think there is any exigency that requires it for that length of time.

Mr. STEVENSON. Mr. Secretary, one of the great things that has been accomplished during the last 12 months has been the orderly marketing of a great many agricultural products.

Secretary MELLON. Yes.

Mr. STEVENSON. Now, we have a wheat crop, we hope, and a corn crop coming on, and a cotton crop. They will all be pressing to market along in the fall, and the very fact that this institution has the power to make loans so as to enable the banks to enable the holders of those things to market them in an orderly way instead of rushing them all on the market as was done with a good deal of the wheat crop last year, will help very materially in that, will it not?

Secretary MELLON. Yes; but of course that was an unusual situation. It was not normal. There were these frozen loans on account of the collapse in values and so forth through the country. That situation has been relieved now to a very large extent—I mean that in most districts it has been entirely relieved.

Mr. STEVENSON. And the banks will not be apprehensive that they will be crowded if they indulge their agricultural customers to market their crops gradually, if they know that there is a War Finance Corporation with ability to make them loans during the fall and winter.

Secretary MELLON. They may feel more comfortable.

Mr. STEVENSON. And more likely to carry their customers in a reasonable way?

Secretary MELLON. Yes.

Mr. BLACK. Mr. Secretary, I saw a statement, made by a Senator the other day in debate, that the Federal Reserve Board had adopted some kind of a rule by which farmers' paper secured with commodities could not be rediscounted if he intended to hold those commodities for orderly marketing. Has there been any rule of that kind adopted?

Secretary MELLON. Oh, no.

Mr. BLACK. I know of none. If a farmer, for example, makes a note to his local bank for $500, secured by 15 bales of cotton, properly warehoused, and that note has a six-months' maturity, is it subject now to rediscount with the Federal bank?

Secretary MELLON. I think so.

Mr. BLACK. Do you know of anything that would prevent its being negotiated; any rule?

Secretary MELLON. No.

Mr. STEAGALL. The law takes care of that, as I understand it?

Mr. BLACK. That is as I understand it.

Mr. STEAGALL. It is not within the power of the board to declare paper of that sort ineligible, as I understand it. We amended the law so as to specifically provide for rediscounting paper secured by farm commodities, with a maturity of six months.

Secretary MELLON. There have been no new rules in the direction you speak of.

Mr. BLACK. I was under that impression, but seeing that statement made I thought I would take this opportunity to inquire if the board had made any new ruling on commodity paper.

Secretary MELLON. No; I do not think so.

The CHAIRMAN. It is probably on a par with some other statements emanating from the same source.

Mr. STEVENSON. We have been getting some statements about the office of the Secretary of the Treasury in a very sensational way that I would just like to ask one question about, and that is has there been any evidence of hundreds of millions of securities of the United States that have been duplicated and are in circulation in this country?

Secretary MELLON. No.

Mr. STEVENSON. You have not found any evidence of that as yet?

Secretary MELLON. Oh, no; that is all unfounded.

Mr. STEVENSON. I was satisfied it was.

The CHAIRMAN. Mr. Secretary, we are very much obliged to you for your presence here this morning.

Mr. STEAGALL. Mr. Chairman, Mr. Stevenson has made a suggestion that we might well deal with.

The CHAIRMAN. What is that?

Mr. STEAGALL. That we just report the bill favorably.

The CHAIRMAN. I have not really read the bill through, and if there is no objection I think we had better go into executive session and consider it paragraph by paragraph.

(Whereupon, at 11.15 o'clock a. m., the committee went into executive session.)

MSH # 22070

END OF
TITLE